

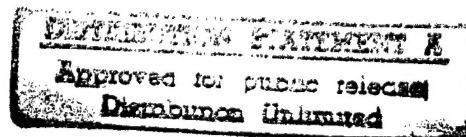
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12 JANUARY 1987

China Report

ECONOMIC AFFAIRS



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12 JANUARY 1987

CHINA REPORT

ECONOMIC AFFAIRS

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NATIONAL AFFAIRS, POLICY

ECONOMIC OFFICIAL ON TECHNOLOGICAL LEVEL

OW242054 Beijing XINHUA in English 1439 GMT 24 Nov 86

[Text] Beijing, November 24 (XINHUA)--During the past five years, 200,000 projects designed to upgrade China's technological level have been introduced, a Chinese economic official said here today.

"The fixed assets of these projects are equivalent to 110 billion yuan (nearly 30 billion U.S. dollars), and about 60 percent of the country's increased output value was brought about by technical progress and managerial improvement between 1981 and 1985," Zhu Rongji, vice-minister of the State Economic Commission, said at a national conference on technical progress.

"In addition, the technological level of many enterprises has been greatly improved," he added.

According to Zhu, nearly 30 percent of China's machinery and electrical products have now reached advanced world standard of the late 1970's and early 1980's, instead of only 10 percent a few years ago.

"China is now also able to mass produce heavy and precision equipment and high-quality durable consumer goods which it could not make before," he said.

Technological upgrading has been implemented in more than 500 larger industrial enterprises since the beginning of this year, and it will be expanded to another 1,000 key enterprises in 1987, the vice-minister said.

"China's larger enterprises produce 60 to 70 percent of the country's output value and profit, and they urgently need step by step technological upgrading because most of their equipment is outdated," Zhu said.

"The government is now working out new policies and measures to aid the development of these key enterprises," the vice-minister concluded.

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NATIONAL AFFAIRS, POLICY

JINGJI GUANLI VIEWS SOCIALIST ENTERPRISE GROUPS

HK020305 Beijing JINGJI GUANLI in Chinese No 10, 5 Oct 86 pp 4-6

[Article by Cheng Haihang (6774 3189 5300): "On Socialist Enterprise Groups"
--edited by Lin Daojun (2651 6670 0689)]

[Text] Following the development of planned commodity economy and the strengthening of the lateral liaison of enterprises, enterprise groups, which have existed in large numbers in developed countries, have begun to appear in our country. An accurate understanding of this modern economic organization form, a scientific anticipation of its significance in the economic life of our country and without losing any opportunity to give it a correct guidance, will have a great significance in strengthening the activities of large and medium enterprises and improve and perfect the socialist economic administrative structure.

I Capitalist Enterprise Groups and Socialist Enterprise Groups

Generally speaking, so-called enterprise groups refer to those relatively large-scale joint organizations formed for a common objective by a number of independent enterprises (including among them companies, chief plants, individual enterprises) which have liaison in production and operation or liaison in the ownership right of assets. An enterprise group is not a simple union of enterprises but has a special kind of union stature. While an enterprise group belongs to the category of a union of enterprises, it is different from the general run of enterprise combinations. It takes, on the basis of an enterprise union, a certain chief factory of company, or a certain bank, as the center, being an organization form which joins again various economic joint bodies or single enterprises. Moreover, an enterprise group has a much wider scope than the general run of joint enterprises. In addition to industrial and mining enterprises, it frequently includes commercial enterprises, financial enterprises, communication and transport enterprises, and so on. Hence, an enterprise group, compared with the general run of joint enterprises, is a union at a much higher level and of a much larger scope. In addition, it also has a special feature and this is that the great majority of the constituent members of an enterprise group are enterprises which are legal entities. Inside a group, on the one hand, due to the liaison in production and technology or the liaison in the ownership right of assets, many of its enterprises have to be subordinate to the leading

enterprise (or company) and are under its control, and, on the other hand, the enterprises themselves are independent legal entities, each carrying on independent economic activities and realizing its own independent economic interests.

Enterprise groups have been a common type of economic organization form in capitalist countries where the commodity economy is relatively developed. They are suited to the demand for socialized large production and a strong lateral economic liaison and are also the product of capitalism proceeding from competition to monopoly. In the middle of the 19th century, beginning from the appearance in France of the modern world's first "cartel" and the appearance in 1879 in the United States of the modern world's first trust, a high degree of production socialization and intensive commodity competition have propelled the rapid development of the joining together of enterprises and its continued escalation. Very soon cartels, which generally featured temporarily-signed agreements, developed to syndicates featuring joint purchases and joint marketing and further developed to the tightly-combined trust. The development then progressed from the combination of industrial enterprises to the combination of a variety of trades comprising enterprises in industry, commerce, transport, finance, real estate, and insurance and reached the stage of a large-scale combine of a stock control company controlling a large number of companies, that is, a "concern." A highly developed concern in a country forms a small number of financial groups and financial magnates. Thus, the well-known "eight large financial groups" of the United States and Japan's pre-war "nine financial magnates" basically controlled the economic lives of the United States and Japan. The large enterprise groups of capitalist countries were precisely converted from these financial groups and financial magnates, although there were still some differences between them. Take the case of Japan's nine large financial magnates. After Japan's defeat, they were dissolved by the American occupation forces who abolished the control over the enterprises formerly exercised by the families of the enterprises financial magnates and sold the shares and stocks held by those families to the workers and staff members and the city populace. However, in the course of the high-speed growth of Japan's post-war economy, capital funds in Japan were again centralized. The former financial magnates were reorganized and formed the Mitsubishi, Mitsu and Sumitomo groups and the re-established Fuyo, Daiichi Kangyo Bank and Sanwa groups, forming Japan's six large enterprise groups. Japan's industrial organization structure was divided into a vertical combination and a lateral combination. The vertical combination refers to combination of a mother company and the son and grandson companies below it. Such a combination is an "enterprise series." A lateral combination refers to the combination of a number of mother companies and their large enterprises, and the combination stature thus formed is the "enterprise group." And how does an enterprise group join together the independent enterprises? Citing again the example of Japan's enterprise groups, their combination form generally does not exceed the following several kinds: First, reciprocal holding of each other's shares, that is A holding B's shares; B holding C's shares, and C holding A's shares. It is an interlocking set of share-holding relationships and, by means of the ownership right of assets, the constituent enterprises are closely linked together. Second,

forming various forms of managing societies. The chairman of the society calls a meeting at a stated time at which the economic problems of the enterprise groups will be discussed and coordinated. For example, there are such societies in the "Jin Yao Society," "Er Mu Society," "Bai Shui Society," "Fuyo Society," "San Jin Society," and so forth. They are the names of the managing societies of the various enterprise groups. Third, forming a joint investment company. Joint investments by the constituent members have the advantage that they all share the same fate. Fourth, taking a large bank as the center. Since a large bank can provide the constituent enterprises with a series of loans, it can become the principal bank and group center exercising control over the various enterprises.

It can be seen from the historical development of the enterprise group that capitalist enterprise groups have a dual quality: On the one hand, they meet the demand of the high-degree development of the productive forces. Due to the high-degree of socialization of production, not only is the specialized cooperation between different enterprises inside industry greatly strengthened but also the lateral relationship between industry and the various industries and trades, such as commerce, finance and transportation, is greatly strengthened and the union of enterprises breaks through the demarcation lines between the industries and trades and the departments and regions, and forms a group which is on a much larger scale and on a much higher plane. On the other hand, they are also the product of capitalist competition proceeding on the road to monopoly. The development of combination among capitalist enterprises is carried out first through the purchase of shares to eliminate the medium-sized and small enterprises and thus elevate their own economic power and competitive position and second, through signing cooperation agreements or entering into actual combination with enterprises of equal strength in the same industry or trade to jointly monopolize the market. They all have the basic objective of procuring high monopoly profits. Seen from the tendency of capitalist enterprise groups to make the utmost efforts to monopolize the market, the rotten nature of capitalism is fully manifested. On the other hand, seen from the fact that they are suited to meeting the need for socialized large-scale production, they display the rationality of promoting the development of the productive forces.

At present, socialist enterprise groups have appeared in our country. Unlike the capitalist enterprise groups and as a kind of new creation in socialist economy, from the very beginning they have demonstrated their strong vitality. Take for example the Dong Feng Motor Vehicle Industrial Jointly-operated Company--its eight enterprises began joint operation in 1981 and within 3 to 4 years broke through the demarcation line of the ownership system of departments and regions. Starting from Zhejiang and Fujian in the east to Urumchi in Xinjiang in the west; beginning from Harbin in the north to Guangzhou and Shenzhen in the south, principally on a large piece of territory in the south, and on a nationwide basis with the motor vehicle products of the Dong Feng system as the object, the Dong Feng Motor Vehicle Enterprise Group has been formed which embraces 127 enterprises in 21 provinces and cities, employed 200,000 workers and staff members, possesses assets worth 5 billion yuan, and accounts for 25 percent of the production volume of motor vehicles of the whole country. Among the constituent members of this

enterprise group, there are both single enterprises and joint enterprises. For example, the Second Motor Vehicle Manufacturing Plant, the Dong Feng Urumchi branch company, the Nanjing Special Motor Vehicle Manufacturing and Assembling General Plant are all joint enterprises and joint bodies. Although some of the constituent members have not formed economic joint bodies, they are still the central enterprises of several cooperating enterprises. In reality, the Dong Feng Enterprise Group leads several hundred enterprises of the motor vehicle industry to effectively propel the motor vehicle industry in the direction of specialization and combination, and to realize the rationalization of the motor vehicle industrial organization. Recently, the Dong Feng Motor Vehicle Enterprise Group, in the wake of production and operation needs, has made preparations to form a financial trust company and a trading company and thus to expand the alliance of industrial production to an alliance in finance and in commerce. Since from the beginning the principle of voluntary participation and freedom in joining or leaving is upheld, the relationship among the member enterprises inside the enterprise group is relatively harmonious, possesses a rather strong cohesive force and displays an exuberant vitality.

Compared with capitalism, our country's socialist enterprise groups have the following basic special features:

1. The basis of the ownership system of the combination is different. In a capitalist enterprise group, the basis is that the private capitalists control the shares and proceed to control the ownership right of the enterprises. In our country's enterprise groups, the system of ownership by the whole people is the main part and a combined and mixed structure systems are formed by various kinds of ownership systems including whole people, collective, and individual.
2. The purpose of the formation of an enterprise group is different. The purpose of a socialist enterprise group is not to monopolize the market or obtain excessive profits but is to satisfy social needs and to raise the production level, organizational level, and economic benefits of the entire industry or trade. Between groups of the same industry or trade competition is not stifled and the groups are encouraged, under the guidance of the state's unified plan, to develop socialist competition so as to promote progress in technology.
3. The internal relationships of the enterprise groups are different. Internally in a socialist enterprise group, in essence there exists a socialist cooperation relationship of a comradely type of reciprocal aid and reciprocal benefit. It is true that between them by means of selecting the best and effecting coordination, competition still develops. But this is entirely different from the type of capitalist competition built on the basis of private ownership and using tactics of cheating each other.
4. The socio-economic environment of the enterprise group is different. A capitalist enterprise group faces a capitalist free market economy. A socialist enterprise group faces a planned commodity economy. It must

follow the laws of a commodity economy, must consciously carry out the state plan and unite the microeconomic benefits and the macroeconomic benefits.

Socialist enterprise groups may also be of several different types. According to the mutual relationship of the constituent enterprises inside an enterprise group, they may be divided into enterprise groups of the "subordinate type" with a central enterprise as the leader and enterprise groups of the "cooperative type" comprising several enterprises of more or less equal strength. According to the constituent members of the combination, they may be divided into industrial enterprise groups, commercial enterprise groups, joint stock enterprise groups, financial groups, and comprehensive enterprise groups with either finance or commerce as the center. Following the intensive development of the reform of the economic structure, enterprise groups of different types will emerge suiting measures to local conditions or to the time element.

II Important Significance of the Appearance of Enterprise Groups in Our Country

The appearance at present of enterprise groups in our country is not accidental but has an intensive objective basis. First of all, it meets the objective demand in our country of the socialization of production and the forming of combinations. Particularly in recent years, the specialization level of the industrial production in our country has been considerably elevated and the combination of enterprises has rather greatly developed. It is inevitable that the enterprise group, as a high-level and large-scale combination of enterprises is the first to appear in the industries arena, particularly in the motor vehicle, iron and steel and petro-chemical industries and trades with a high degree of socialization. Second, the development of planned economy has imposed even higher demands on the lateral liaison of enterprises, including an increase in the contents of the liaison, expansion of the liaison scope and strengthening of the degree of liaison. Third, the reform of our country's economic management structure, particularly separation of government from the functions of enterprises and expansion of the enterprises' decisionmaking power has provided external conditions for the development of enterprise groups. Precisely because of the existence of the above-mentioned conditions, enterprise groups have made their appearance in our country.

As a brand new form of economic organization, socialist enterprise groups are extremely significant in our country's reform of the economic structure and the establishment of a new economic management structure. The reform of the economic structure in our country has the main purposes of working around the central theme of strengthening the enterprises' vitality, vertically separating the government from enterprise functions, reducing government's direct control and mandatory planning and thoroughly changing the management method of the government converting enterprises into its appendices and the highly centralized planned structure. At the same time, laterally, we should vigorously develop the lateral relations between the enterprises and gradually form and perfect a unified socialist market system. Through the vertical and lateral reforms, the demarcation between departments and regions and their

being sealed off from each other should be broken. Hence, it is necessary to carry out reform on the economic management organization. The "Seventh 5-Year Plan" clearly stipulates: The 3d step in the reform calls for "the gradual establishment of an organization structure suited to the new system, the further solution of the problems of the subordinate relationship of enterprises and the demarcation between departments and regions, and ultimately separating the functions between the government and the enterprise. Regarding the so-called suitable organization structure, the enterprise group is one of its important forms. This is because the enterprise group is formed in accordance with the direction of the reform of the economic structure and breaks the demarcation line between the departments and the regions. It occupies a special position in the national economy. Seen vertically, it is located in the middle layer between the government and the enterprise and serves as a bridge between the two. Seen laterally, it is located between the enterprises and serves as the connecting link in the lateral relations of the enterprises. In the new economic structure, it will become the connecting point in the various vertical and lateral relationships between the government and the enterprises, the enterprise joint-bodies and the enterprises, the enterprises and the enterprises (including various kinds of enterprises such as financial and commercial enterprises). This special position of the enterprise group gives it a special significance in the reform of the economic structure:

First, the enterprise group is beneficial to developing the lateral relations of the enterprise and strengthens its vitality. As a result of the enterprise group itself possessing the feature of flexibility, in organization, it can contain combinations of enterprises under different forms of ownership (including those extending across departments, across regions and even across countries), combinations of different contents (including industrial and commercial combines, and combinations, in various forms (including the close-knit type, semi-close knit type, loose type). It greatly improves the product structure and the organization structure of the enterprise, and improves the enterprise's competitive capacity, capacity to meet exigencies and self-development capacity. Second, the enterprise group is beneficial to readjusting and reforming the structure of the ownership system. Inside an enterprise group, by means of enterprises under different ownership systems investing in each other and holding each other's shares, it is natural that a mixed ownership system and a stock and share economy will be generated, thereby helping in overcoming the "soft restrictions" in the enterprise's budget and the shortage of benefits. Third, enterprise groups are beneficial to the separation of government and enterprise functions and to the state's macroeconomic control. The greatest difference between an enterprise group and an administrative company or corporation is that it is not a first-rank controlling organ formed by the government with authority from top downward. It does not possess government functions. It is a joint organization formed by the enterprise on the basis of each other's needs and extends from bottom to top. It is linked to the enterprises in flesh and blood and united with them into a body. The development of enterprise groups points the direction for the reform of a large number of administrative companies which restrict the vitality of the enterprises. Fourth, in their capacity as an important constituent part

of the future organization structure of the national economy, enterprise groups are beneficial to realizing the unification of macroeconomic control and microeconomic invigoration. In the future, in general the government will no longer directly manage the enterprises and administrative companies also will not exist. As for the thousands upon thousands of independent large, medium-sized and small enterprises, how the government will carry out the macroeconomic control over them will inevitably be a thorny problem. But the enterprise group opens up the ideological road for us. Through the union of enterprises and proceeding to the formation of different enterprise groups, it will be possible to solve organizationally, in a relatively ideal manner, the contradiction between the enterprises' microeconomic invigoration and the state's macroeconomic control. In the future, it may be possible to form this kind of an organization structure such as government-enterprise group-enterprise (including economic combination bodies). Take for example our country's motor vehicle industry. If, following the combination road of the Dong Feng Motor Vehicle Industrial Joint Operation Company, after a few years, five to six such motor vehicle enterprise groups will be formed, then the state will only have to go through these groups to effect control of the whole motor vehicle industry.

Thus, an enterprise group, acting as an intermediary between the government and the enterprises, accepts from the government the mandatory plans and the necessary control while, vis-a-vis the enterprises, it acts in the capacity of an organization in the nature of an enterprise and possessing diversified functions, such as industrial, commercial and financial, to carry out cooperation between, and management of, the member enterprises. Thus the enterprises of our country will possess vitality but still be under macroeconomic control. In particular, when a bank joins a enterprise group, it can because it is itself an enterprise, more easily go deep into the internal affairs of the enterprise, intervene in the enterprise's operation activities, and, in the capacity of a director, participate in the decisionmaking of its operation. In the capacity of a holder of the state's funds, it carries out the management work and thereby forms a force inside the enterprise group to maintain and protect the enterprise's long-term interests as against the enterprises' "interests tending to the short side."

III. Creating Conditions for Developing Enterprise Groups in the Course of the Reform

The appearance of enterprise groups reveals the good prospects of the reform but also makes urgent demands on thereform. According to our investigation of certain fairly influential enterprise groups, we have discovered that enterprise groups have met with many difficulties. First, the traditional planned management structure comes into conflict with the management of enterprise groups. The existing planned management structure follows the pattern of having two channels, such as the "state planning commission--ministry in charge (or trade or industrial company of a nationwide nature)--enterprises" and the "state planning commission--province city--enterprise," to send downward plan targets for the supply of materials. But the enterprise

group is excluded from this structure and is not a first-rate planned unit. The various enterprises in the enterprise group must separately receive from different channels their planned targets and materials targets. This makes it difficult for the enterprise group to unify management and there can be no assurance of the supply of materials to the member enterprises. Second, the departments in charge and the industry or trade companies of a nationwide nature have not displayed the functions of the enterprise groups well. Certain departments in charge directly take over the management functions of the different enterprises of the enterprise groups, leaving the enterprise group a skeleton structure. Some trade or industry companies on a nationwide scope do not differentiate between government and the enterprise, make the enterprise take the place of the government and thus cause great conflict with the enterprise group. Third, enterprise groups badly need the development of a union and the merging of funds, but the traditional financial structure has been a vertical one, with distribution made according to departments and regions and it is thus difficult for enterprise groups which extend across departments and/or regions to enforce the lateral merging of funds. Fourth, there are also problems concerning the coordination of the interests of the enterprise groups and also the leadership structure. Whether or not an enterprise group's interests can be rationally distributed is the key to influencing an enterprise group's internal cohesive force and vitality. Some enterprise groups have not rationally distributed their interests, breeding dissension among member enterprises. Enterprise groups should follow the changed conditions and promptly carry out the coordination of the benefits. But to promptly coordinate the interests, it is still necessary to solve the problem of the leadership structure. At present, certain enterprise groups have enforced the manager responsibility system with the factory head of the leadership enterprise serving as the manager. This is disadvantageous to protecting the proper rights of the constituent enterprises.

The above-mentioned problems are really the combined reflection of the contradiction between the new economic organization form, the enterprise group, and our country's traditional economic management structure. In order to promote the development of enterprise groups, it is necessary to carry out a comprehensive reform of our country's existing planning structure, materials supply structure, financial structure, currency structure, labor wages structure, and so forth. Under the current conditions of the inability to proceed with an immediate all-round reform, we should adopt a series of new and flexible policies toward the enterprise groups and carry out a "double-track system" linking the traditional structure and the new structure. For example, in planning we should take a number of enterprise groups possessing fairly matured conditions as first-rank planned units to be included in the plan-list. The central authorities should designate a portion of the materials targets and credit and loan targets to be directly assigned to the enterprise groups. Internally, the enterprise groups should form enterprise banks of investment trust companies or financial trust companies. The enterprise groups should provide funds, together with the credit and loan funds appropriated by the state to form the bank's capital funds, for use in the merging of the internal funds of the enterprise groups. The enterprise banks should be under the dual leadership of the central people's bank and the enterprise groups. Regarding the control of the enterprise groups, the relevant departments should firmly

adhere to the principles of retrenchment and delegating of power, exercising only those necessary functions such as policy planning, coordinating economic relations, arranging major construction projects, managing external exchange and interflow, appointing or dismissing leadership cadres, and so forth, and should not interfere with the enterprise group's internal production and operation activities.

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NATIONAL AFFAIRS, POLICY

LIAOWANG REVIEWS URBAN ECONOMIC STRUCTURAL REFORM

HK250315 Hong Kong LIAOWANG OVERSEAS EDITION in Chinese No 46, 17 Nov 86
pp 3-4

[Article by Lin Chen (2651 2525): "Reviewing the Reform of the Urban Economic Structure in the Past Year"]

[Text] Abstract: Progress has been made in the reform of urban economic structure, not without friction, in the process of replacing the old structure with the new in the past year. This article sets out the accomplishments scored in implementing the principle of "consolidate, digest, supplement, and improve" since the beginning of this year, and the plans for further reform in the next 2 years. [end abstract]

Progress has been made in the reform of urban economic structure in China, not without friction, in the process of replacing the old structure with the new in the past year.

The State Council proposed the principle of "consolidate, digest, supplement, and improvement" early this year. At that time, some people at home and abroad believed that reforms were in a phase of "withdrawal." Now that a year will soon have gone by, how is the development of reforms? Not long ago, the reporter attended the fourth information exchange meeting for 15 cities in Dalian. Voluminous information at the meeting showed that marked results have been scored in implementing the principle.

What Has Been Consolidated?

Major reform measures put into practice have been consolidated in the main. Early this year, many cities organized forces to conduct in-depth investigation of those enterprises with decisionmaking power expanded, to get a clear idea of the conditions of the enterprises. In April, Tianjin organized more than 300 people to stay at 31 enterprises with decisionmaking power expanded, and obtained plenty of firsthand material. Direct dialogue was organized between leading members of various departments and more than 300 entrepreneurs and some policies for further invigorating enterprises were proposed. Meanwhile, Changzhou, Guangzhou, as well as Harbin also conducted mass examination on the implementation of expanding decisionmaking power in enterprises.

In all cities, some new policies were drawn up in view of the situation that the implementation of expanding decisionmaking power in enterprises had not been satisfactory. Many cities made explicit the following regulation: Whoever retains or removes decisionmaking power that should be transferred to enterprises will be investigated and held accountable. These measures were helpful to putting a stop to the "trend of removing decisionmaking power" in vogue early this year.

The factory director responsibility system was one of the major topics of discussion in the first half of the year. Some people set upholding to party leadership and promoting this system against each other, and kicked up a fuss, which hampered the implementation of the system in many cities where reform was being carried out on an experimental basis. Therefore, many cities have exerted great efforts to consolidate this reform in the past year. A leading group was set up in Shenyang, comprising the leading members of the city party committee, government, and the federation of trade unions, for organizing the reform of the factory director responsibility system on an experimental basis, to harmonize and iron out the relations between the party, government, and trade union, with the aim of making this reform develop in a systematic, standardized, and orderly way.

In October 1986, the state issued three "regulations" on the leadership structure of enterprises, to further clarify the relationship between the party committee and the director, which had been in confusion in the past. The view that the director is the chief responsible person of the enterprise is beginning to be accepted by more and more people.

Consolidation of the contract responsibility system for management inside the enterprise has also been a focus of attention in many cities undergoing reform on an experimental basis. Tianjin analyzed and summed up the citywide implementation of the financial responsibility system in industrial enterprises, and adopted some practical and feasible measures. For example, it implemented the contract system for the total sum of wages in the majority of industrial and commercial enterprises, and allowed enterprises to lump together part of the subsidies with the bonuses. On an experimental basis, Tianjin bicycle factory has instituted a collective piecework system on the basis of the amount of wages set for finished products; Tianjin brewery has implemented the system of linking the amount of wage with every ton of beer; and Tianjin machine tool cast works has instituted the system of linking the amount of wage with every ton cast. These measures provided the implementation of the financial responsibility system with a material basis, while eliminating the side effects resulting from carrying out wage reform in enterprises in an indiscriminate way.

The reforms in transferring power in other respects have also been consolidated and developed. The administrative power of localities and cities has been gradually enlarged, with the number of cities carrying out reform on an experimental basis increasing to 73 from 58 at the beginning of the year. The work of transferring enterprises under the jurisdiction of the Ministry of Electronics Industry and the Ministry of Machine-Building to localities or

cities is almost completed. Those enterprises transferred to localities or cities have been revitalized. In the course of lateral ties, the electronics trade has formed two new bases: Beijing Jiuxianqiao electronics base and Chengdu electronics base.

What Has Been Digested?

Song Tingming, responsible person of the investigation and research group under the State Commission of Structural Reform, believes that digestion concerns two aspects: one is the digestion of price reform, and the other is the digestion of wage reform. He talked about the former.

The lifting of price restrictions on farm and sideline produce and the invigoration of free trade has made a strong impact on, and challenge to state-run commercial enterprises; however, it has also caused prices to remain high and the citizens to complain. Therefore, many cities have made corresponding readjustments of the commercial structure since the beginning of this year. For example, in the supply of vegetables, state-run commercial enterprises make their purchase orders based on contracts, with a ceiling for retail prices, and state-run commercial enterprises are organized to participate in market competition, while retail stores are encouraged to make purchases on their own, with their commodities directly sent to the market. In the first 6 months of 1986, the volume of farm and sideline produce that Tianjin purchased from other places grew by approximately 200 percent over 1985, and the municipality set up 23 non-staple food bases in 9 provinces and cities. According to statistics in June 1986, the quoted prices of non-staple food remained basically the same as in the same period in 1985, and the quoted prices of vegetables even dropped by 3.4 percent. In the reform of the production and marketing of vegetables, Dalian has strengthened the administration of land for vegetable growing, and strictly controlled the requisition of land designated for this purpose. At the same time, certificates for using the land have been issued, and it is stipulated that those who transfer the land for other purposes or allow it to lie waste without permission will be fined. At the same time, commercial structural reform similar to Tianjin has also been conducted there, resulting in a big increase in the volume of vegetables marketed, with their prices falling somewhat from 1985. The reform in the production and marketing of vegetables in Beijing went through great ups and downs, and roused nationwide concern. Through promoting market control, exploring sources of vegetables, and opening the city gate, the situation changed rapidly. At present, Beijing citizens no longer worry about a shortage of vegetables, and the prices are comparatively reasonable.

Industrial enterprises also went through a process of "digesting" the price reform. In 1985, markets for production materials were set up step by step in various localities, and the scope of mandatory production plans issued by the state grew smaller and smaller. This made more enterprises further face the market for the purchase of raw materials. This means purchasing raw materials at "negotiated prices," which are much higher than the state quoted prices, yet the prices of their finished products were not to be raised correspondingly because of the state restrictions. This made the digestion of the price

hike factor inside the enterprise a headache; but it also stimulated the enterprise to improve its operation and management, to upgrade its own qualities, and to pay attention to economic results. Over the past few years, Changzhou alone has digested the factor of price hike in raw materials in sum of more than 200 million yuan. At the same time, various cities have continued to adopt the measures of offering higher prices for good quality products, or reducing the taxes or profits to be handed over to the state to lighten the burden of the enterprises concerned. With approval of the State Administration of Commodity Prices, the policy of offering higher prices for good quality goods will be adopted for seven major industrial consumer goods, including refrigerators, bicycles, and color television sets.

The digestion of price reform cannot be completed overnight. Song Tingming believed, three aspects should be taken into consideration: first, the state's capacity to bear the burden of the state (how much money is affordable for subsidies); second, the digestive capacity of the enterprise; and third, masses' supporting capacity. Therefore, three processes should be allowed in "digestion," namely, the process for the state to readjust its policies, the process for the enterprise to readjust its product mix and to adapt its production, and the process for the masses to make a gradual psychological adjustment. We should not go through these processes in haste.

What Has Been Supplemented?

By supplementing, we mean mending some loopholes and filling in some "gaps" that inevitably emerge in replacing the old structure with the new.

Since the implementation of the factory director responsibility system, new problems have emerged with some factory directors attaching greater attention to immediate interests than long-term ones. Therefore, many cities have done a necessary "mending" of this reform this year. The 15 cities participating in the meeting have implemented the responsibility system for targets to be met during the director's term of office. Some cities such as Shenyang have implemented the term-end target auditing system. When the director's term of office is fulfilled, the audit department will examine the results of the director in implementing the target, before he is given approval to "leave office."

Drawing a demarcation line between unhealthy tendencies and economic structural reform is also an important "supplement" in reform this year. To draw a demarcation line, it is necessary to distinguish what are criminal activities, what are mistakes, and what are newborn things emerging after reform. Between January and October 1986, more than 70 economic decrees to be implemented were put on record in the industrial and communications section under the State Legal Bureau [fazhiji 3127 0455 1444), far exceeding the level during the same period in 1985. To distinguish between necessary trade activities in commodity economy and the practices of speculation and graft, short-term training courses were held for enterprise leaders in batches in Changzhou as well as separate forums for purchasing agents, sales agents, foreign trade workers, financial workers, tax collectors, and bank officers

specialized in credit loans. They were helped to eliminate their misgivings and to do their work boldly. People and matters violating the law should be dealt with according to the law. This year, a number of one-man companies engaged in speculation and fraud have been weeded out throughout the nation, and some loopholes have been plugged.

What Has Been Improved?

The target of improvement lies chiefly in macroeconomic control. This is shown in the following two aspects: the lateral flow of capital, and the functional change of administrative organs.

The shortage of capital has become the most outstanding problem since the implementation of macroeconomic control in 1985, and naturally it has become the focus of improving this control this year. Lateral economic ties are the greatest development in reform this year. These are chiefly expressed in the flow of capital.

First, the state examined and distinguished the enterprises in different localities and different conditions, and relaxed the circulation of capital. In the first half of 1986 alone, more than 10 billion yuan of capital were provided. At the same time, lateral capital flow between cities has become more and more active. All kinds of non-government monetary organs have been set up, which have broken the monopoly of the People's Bank. Internally, the People's Bank has utilized the differences in banks, time, and localities in developing the operations of providing loans between branches of the same bank in different localities and between different banks in the same locality, as well as other ways of providing loans, with good results. The seven cities that have separate listing in the state plan, including Chongqing, Wuhan, and Shenyang, signed accords on lateral flow of capital. Suzhou, Wuxi, and Changzhou are making preparations to set up a banking group, and the financial ties between them have become more frequent. To collect idle capital among the people, banks and enterprises have unfolded operations in issuing bonds and securities in an all-round way; correspondingly, such operations as discount on promissory notes have been initiated. Stock markets have been opened in Shenyang, Shanghai, and Wuhan since the 3d quarter of 1986. Statistics show that more than 8 billion yuan have flowed throughout the nation to date. This has created the conditions for invigorating banking, relaxing the strain on circulating capital, and building a capital market with wider scope and longer term. The number of cities parting in the reform of the financial structure on experimental basis has grown from the original 5 to the present 12 in the whole country.

Certain progress has also been made in the functional changes in administrative organs. Such large and medium cities as Harbin, Wuhan, and Jiangmen have gone one step ahead in "operating" on each of their organs, and scored certain results along the line of strengthening comprehensive departments, reducing specialized offices and bureaus, implementing professional administration, and realizing the policy of serving enterprises. The State Council has recently decided that 16 medium cities are to conduct further reform in their organs

on an experimental basis. Shanghai has taken more action in this respect, and readjusted administrative corporations--an administrative level that had a standing of more than 3 decades; 19 out of 77 corporations in this category were abolished. It is estimated that a total of 61 corporations will have been abolished or dissolved by the end of 1986. With these administrative corporations abolished, some enterprises of good quality are overjoyed, while some small factories that were used to depending on those corporations find it difficult to adapt to the situation. At present, Shanghai is trying to make this reform complete and perfect by aiming at the specific conditions of the enterprises to promote the functional "track-changing" of the entire administrative organs.

What Are the Plans for 1987 and 1988?

The representatives of the 15 cities believed that first, it is necessary to stabilize the economic situation and to maintain a certain level of economic growth in 1987 and 1988. This is because, only when the economic situation is stabilized will a more relaxed environment be possible for reform.

Second, strengthening the building of a market system has become a pressing matter of the moment in further reform. The representatives of Wuhan, Shashi, Changzhou, and Shenyang talked about the need for further exploring the building of a production materials market as well as a capital market. Regarding the steel products market in particular, the existing dual track system has led to great differences between official and negotiated prices of steel products, and some localities or enterprises have even used steel products as hard currency. They are stored in huge volume whether they are to be used or not. As a result, steel products are imported in great volumes, while stockpiles increase drastically. This provides an opportunity for lawbreakers. Therefore, some representatives believe that it is essential to build a steel products market in 1987. Regarding the capital market, some representatives are considering instituting the form of agreements, to vary the financial organizations and means. The question to turning banks into business enterprises was also on the agenda.

Third, many cities are planning to further expand, to develop, and to make complete and perfect the joint-stock company system in 1986 and 1987.

Fourth, institutional reform. The representatives participating at the meeting believed that structural reform of organs has become a key to whether the reform will deepen. Great progress must be made in this respect in 1987 and 1988.

And fifth, making residential houses commodities. In this respect, the state has conducted experiments in seven cities. Many cities are considering the feasibility of turning residential houses into commodities in 1987 and 1988.

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NATIONAL AFFAIRS, POLICY

RETAIL SALES EXPECTED TO SHOW CONTINUED RISE

HK050534 Beijing CHINA DAILY in English 5 Dec 86 p 1

[Article by staff reporter Liu Dizhong]

[Text] China's retail sales are expected to show continued robust growth this year despite rises in the price of food and some other commodities.

Gross retail sales volume this year is expected to reach 495 billion yuan (about \$133 billion), an increase of 15 per cent over 1985, Jiang Xi, deputy minister of commerce, said in an interview with CHINA DAILY yesterday.

The increase of retail prices "has been controlled within an annual rate of 6 per cent as planned," Jiang said, but he added that the price of food products increased 7.7 per cent in the first nine months of this year over the same period in 1985.

This year has seen an overall increase in sales of consumer goods. Food sales in the first half of the year rose 11.8 percent, purchases of clothing and shoes were up 4.3 per cent and sales of other commodities, including durable goods, increased by 17.3 per cent compared with 1985.

However, Jiang said, the growth of retail sales in rural areas has been slower than that in cities and towns due to inadequate commercial channels and shortage of certain commodities needed by rural people.

Describing the market situation this year as "basically stable," Jiang said his ministry had helped the state withdraw 15 billion yuan (about \$4 billion) from circulation, overfulfilling the planned annual target.

The deputy minister predicted that retail sales next year could be up to 560 billion yuan (about \$151 billion), a 13 per cent increase over this year, a result of the growth in buying power.

This is attributable to this year's bumper harvest, the boom in rural industrial enterprises and large wage increases for urban workers and government employees, Jiang said.

China's grain production this year is expected to increase by more than 10 million tons to 390 million tons. The state has decided to reduce its compulsory grain purchases by 10 million tons, leaving more for farmers to sell to the state or on the free markets at higher prices.

The output value of rural enterprises may top 330 billion yuan (about \$89 billion) this year, up 21 per cent over 1985.

In urban areas, Jiang said, wage rises this year are expected to be around the 20 per cent mark.

As price controls over some commodities will be lifted next year to allow wider differential according to quality and transport costs and to allow for seasonal fluctuations, greater efforts must be made to keep possible price rises under control, Jiang said.

Jiang said his ministry was planning new measures to maintain the prosperity and stability of the domestic market next year. They include giving more support to farmers with timely supply of fertilizers, diesel fuel and other necessities; improving the quality of manufactured goods and quantity of name-brand products in high demand; and reducing stockpiles by expanding the nationwide sales network to supply rural areas with more and better consumer goods.

The quantity and variety of gold jewelry will also be increased to meet consumer demand, he said.

The service industry, a still under-developed sector of China's economy, will also be promoted next year, Jiang added.

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NATIONAL AFFAIRS, POLICY

BRIEFS

ZHU RONGJI ON INDUSTRIAL DEVELOPMENT--Beijing, November 22 (XINHUA)--The speed of China's industrial development this year has been normal, exceeding the scheduled rate, according to Zhu Rongji, vice-minister of the State Economic Commission. Coming on the heels of last year's abnormally high speed, this indicates good control of the overall economic development program and management of specific production quotas, the vice-minister was quoted by today's PEOPLE'S DAILY as saying. But industrial economic efficiency has fluctuated this year. Zhu attributed this to the abnormally high speed of development last year, the lifting of the prices of some farm and sideline produce and raw materials, and the readjustment of the currency exchange rate and the rise of the Japanese yen, which have affected processing industries, the light and textile industries in particular. Zhu said one of the fundamental causes was poor operational management. He urged leading officials at various levels to concentrate on raising product quality by using administration, law and public opinion alongside economic means. He also recommended collecting and analyzing market information and promoting distribution. [Text] [Beijing XINHUA in English 1143 GMT 22 Nov 86 OW] /6662

UPGRADING INDUSTRIAL PRODUCTS STRESSED--Beijing, November 24 (XINHUA)--More international quality control standards will be enforced in China's industrial enterprises next year, according to Lu Dong, minister in charge of the State Economic Commission. "This is an important way to upgrade China's industrial products," he added. By 1985, Chinese enterprises had adopted 2,500 international standards, and will add another 500 next year. According to the state plan, about 50 percent of China's major industrial products will be manufactured in line with international quality control standards. Speaking at a national conference on technical progress which opened here today, the minister described the improvement of products as a "strategic task" in China's technical advancement. He urged enterprises to promptly evaluate both international and domestic markets and produce more competitive products. The minister said, "China will continue to import equipment and technology from abroad, and at the same time, efforts will be made to implement imported advanced technology. Industrial enterprises should cooperate more with scientific research departments and institutions of higher learning in developing new products and technology," he said. To encourage high-quality production, he requested the country's financial departments and banks to give enterprises preferential treatment. [Text] [Beijing XINHUA in English 1321 GMT 24 Nov 86 OW] /6662

CSO: 4020/63

FOREIGN TRADE, INVESTMENT

SUGGESTED CHANGES IN EXPORT POLICY TOWARD JAPAN

Shanghai SHIJIE JINGJI DAOBAO in Chinese 29 Sep 86 p 5

[Article by Ma Chengsan [7456 2052 0005]: "Two Changes Necessary for Expanding Exports to Japan"]

[Text] [Summary] In the present stage, China's policy for exports to Japan should be the simultaneous expansion of primary and processed products, trying in particular to gradually increase the proportion of processed products. Foreign exchange earnings from exports should be increased by improving as soon as possible the nonprice competitiveness of products, with the emphasis on quality. [End summary]

Chinese-Japanese trade is the foundation of Chinese-Japanese economic relations. A major prerequisite to realizing the long-term stable growth of this trade is maintaining a basic balance in the two countries' trade, or at least containing the imbalance within definite limits. Otherwise, rather large fluctuations in bilateral trade will be unavoidable, adversely affecting economic cooperation between China and Japan.

There are two ways to keep Chinese-Japanese trade in balance or basic balance. One is an active, expanding balance, the other is a negative, shrinking balance. In considering the interests of both sides, the former is without doubt the most ideal method. It seeks to achieve balance while expanding bilateral trade. In this sense, the key to attaining balanced growth in Chinese-Japanese trade is to expand China's exports. In order to expand exports to Japan, this reporter believes that, on the one hand, we should ask the Japanese Government to lower tariffs and eliminate quotas and policies banning imports. This will enable Chinese commodities to enter the Japanese market. On the other hand, we must make two changes in export strategy. The first is to transform the mix of commodities, that is, to gradually change the currently excessive reliance on petroleum exports and to vigorously develop nonpetroleum products, especially the export of processed industrial goods. The second change is to replace the current practice of "earning money through greater quantities" with "earning money through greater quality," that is, increase foreign exchange earnings from exports by striving to improve the nonprice competitive ability of products, with the emphasis on quality.

The First Change: Change the Export Commodity Mix

The main characteristic of the current commodity mix of Chinese exports to Japan is the predominance of petroleum and other primary products. Industrial processed goods account for a very low proportion. According to Japanese customs statistics, in 1985, for example, petroleum (including crude oil and product oil) accounted for 43.1 percent of total Chinese exports to Japan; raw materials for textiles, metal, etc., accounted for 8.2 percent; processed goods, mostly textiles, were 27 percent.

Of course, the composition of trade between countries is determined by the natural resources and production structure on both sides, and cannot be changed significantly overnight. Transforming the mix of Chinese exports to Japan must also go through a gradual process of ever larger changes. In the present stage, China's policy for exports to Japan should be the simultaneous expansion of primary and processed products, paying particular attention to gradually increasing the proportion of processed products. We should thus continue to develop the export of petroleum and other energy sources to Japan, but also vigorously develop exports of corn, soybeans, other agricultural products, and nonferrous metals, rare metals, and other materials. That is, we should try to spread out and diversify the range of primary products.

In the medium to long run, developing the export of processed goods to Japan is of extremely great strategic significance. It not only fits in with changes in the composition of Japanese imports, it also tallies with the special characteristics of China's supply capacity. The reason is that the per capita reserves and output of petroleum and other resources in China are not very great. In addition, the development of production will lead to larger increases in the domestic demand for energy, which from now on will have a definite impact on whether China has enough to export. But there is no lack of labor: China's abundant labor resources still have not been fully tapped. If we can take advantage of our labor force and vigorously develop the export of various processed products (including semiprocessed goods), this will not only help expand the quantity of Chinese-Japanese trade, it will also raise the quality of the trade. It will thus gradually change the current "vertical division of labor" to a division of labor which to a considerable extent will be "horizontal." In terms of commodities, we can adopt the policy of simultaneously expanding labor-intensive products (light industrial products, textiles, etc.) and resource-intensive products (chemicals, etc.), with the emphasis on developing the export of labor-intensive products. We can then use imported technology and direct investment to develop the export of machinery and electronics products (including spare parts and components).

The Second Change: Replace "Earning Money Through Greater Quantities" with "Earning Money Through Greater Quality"

Japanese consumers have praised the quality of many Chinese commodities exported to Japan. In general, Chinese exports to Japan are quite competitive in terms of price. However, their competitive ability in terms of nonprice factors, particularly quality, lags considerably behind. (These nonprice factors include commodity quality, pattern and design, packaging and mounting, and punctual deliveries.) As a reflection of these quality problems and

others, the selling price is on the low side. The result is this: the quantity of certain commodities exported to Japan is very large, but very little foreign exchange is earned. This serious imbalance between the quantity of Chinese exports to Japan and the amount of foreign exchange earned shows that China has basically followed the practice of "earning money through greater quantities" in its exports to Japan, especially in the export of processed goods. With low prices and low quality, China has relied merely on increasing the quantity of exports to maintain or enlarge its export earnings.

We must realize that if we do not improve the competitive ability of nonprice factors, primarily quality, the selling price of our exports to Japan will be affected and furthermore, attempts to expand the quantity of exports will also definitely be affected. In other words, the so-called practice of "earning money through greater quantities" in fact is very limiting, and in the intermediate to long run, it will not work. The reasons are: 1) In contemporary international trade, the competitiveness of nonprice factors, primarily quality, is of ever increasing significance. This is even more true in the Japanese market. 2) Competition on the Japanese market is extremely intense. The developed countries of America and Europe and many developing countries are all striving to enlarge their exports to Japan. Among them are the so-called "emerging industrial countries and regions of Asia," including China's Taiwan Province and South Korea, which are even more directly our competitors. 3) An important aspect of expanding exports is developing new products. But the experiences of international trade have shown that if the general image of a country's (regions's) products is not good, this will certainly affect the marketing of new products.

Many facts prove that solving the problem of quality and other nonprice factors affecting competitive ability is of the utmost priority in expanding our exports to Japan. If such problems are not solved, expansion of exports to Japan will remain just talk.

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FOREIGN TRADE, INVESTMENT

JI CHONGWEI URGES OPENING ENTIRE NATION TO FOREIGN TRADE

Shanghai SHIJIE JINGJI DAobao in Chinese 6 Oct 86 p 2

[Article by Lei Yang [7191 2254]: "All Four Corners of China Should Open up to the Outside World; Ji Chongwei [1323 1504 1218] Believes: In Order to Open up Every Corner of China, We Must Further Open up the Northwest, the Northeast, and Other Border Areas; This Will Promote Economic Exchanges with Europe and Asia, Strengthen China's Economic Position in the World"]

[Text] "The main target of China's opening up to the outside world in the past few years has been primarily the developed countries of the West. We have, therefore, established 4 SEZ's along the coast, 14 open coastal cities, 3 coastal open economic zones and the Hainan Island zone. This has created a coastal belt of open areas stretching from the north to the south. However, if we truly want to open up every corner of China, we must further open up China's northwest, northeast, and other border areas." These remarks were made a few days ago by Ji Chongwei, an executive director of the State Council's Economic, Technological and Social Development Research Center, at a conference discussing use of foreign investment and imported technology in northwest regions and Nei Monggol.

He feels that China should not merely open up to Western capitalist countries, it should also open up to socialist countries in the East bloc and the many countries of the Third World. Following the principles of equality and mutual benefit, we should expand our economic cooperation, trade links, and technical and cultural exchanges with these countries and regions.

It is understood that China's economic and trade links with the Soviet Union and Eastern Europe are in the process of gradually being restored and expanded. In 1981, our trade with the Soviet Union was only worth \$200 million, but by 1985 it had reached \$2 billion. During Vice Premier Yao Yilin's visit last year to the Soviet Union, he signed cooperation agreements in five different areas, which determined that from 1986 to 1990 the volume of imports and exports between the two countries will reach more than \$30 billion.

Ji Chongwei pointed out that opening up every corner of the country will bring many benefits to China. First of all, it can expand the number of markets and the range of exports for China's foreign trade. Increasing the variety of

goods we import and export can help us and other countries make up for what each country lacks; this is especially true in the trade of commodities between the two neighboring giants of China and the Soviet Union. We are in a good position to export in large quantities precisely the things which the Soviet Union needs to import in large quantities: grain, foodstuffs, light industrial products, textiles, and everyday goods. Similarly, the Soviet Union can export to us timber, steel products, chemical fertilizers, automobiles, airplanes, and machine equipment, commodities in short supply in China and urgently needed for our economic development. Furthermore, the border between China and the Soviet Union stretches 5,000 to 6,000 km from Heilongjiang along Nei Monggol to Xinjiang. There are two rail lines which link up and many roads and ports, facilitating the exchange of needed commodities.

Second, for the provinces and regions which are in the northwest, Nei Monggol, and northeast, and which border on the Soviet Union, Mongolia, and Pakistan, opening up the foreign market for China's west will help promote both exchanges between China and foreign countries and the lively development of the entire economy.

Third, railroads within the Soviet Union could provide a shortcut for shipping our goods to Europe, and serve as a land bridge from the Pacific to the Atlantic, spanning the continents of Asia and Europe. It has been calculated that the traditional ocean shipping route to Europe covers 27,000 km and takes 50 days. But if we open the land bridge and go through China's northeast and the Soviet Union, the distance would shrink to 13,000 km and the shipping time could be roughly cut in half. In the future, Japanese and Southeast Asian goods could also be shipped to Europe over this land bridge.

He emphasized that opening up all four corners of China would not only promote the economic vitality and development of the vast areas in the northwest and northeast, it would also promote economic exchanges between Europe and Asia, as well as greatly strengthening China's strategic position in the world economy.

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ECONOMIC ZONES

TIANJIN ECONOMIC DEVELOPMENT ZONE TAKES SHAPE

Tianjin TIANJIN RIBAO in Chinese 25 Jul 86 p 4

[Article by Li Yamin [2621 7161 3046] and Tian Guiming [3944 6311 2494]:
"Tianjin Economic Development Zone Makes Progress"]

[Text] After more than a year's hard work, the Tianjin Economic Development Zone [EDZ] is now basically equipped for the operation of joint ventures. A fledgling industrial zone has emerged.

The zone insists that its growth be project-led. For over a year, departments in the zone responsible for attracting foreign capital had extensive contacts with thousands of foreign businessmen from over 20 nations and regions, held negotiations on over 400 projects, and signed formal contracts on 34. Of these, 29 are Chinese-foreign joint and cooperative ventures with a combined value exceeding \$60 million, 47 percent of which are foreign capital.

In attracting foreign capital, the zone focuses on industries which are "technology-intensive," can "contribute to the technical modernization of aging urban enterprises," "require little capital, and produce quick results." It researches diligently and negotiates tirelessly. As a result, most of the deals it has struck distinguish themselves in the following ways: 1) they are mainly industrial projects that take advantage of Tianjin's industrial strength; 2) they exploit domestic resources and target the foreign markets to earn foreign exchange; 3) they are mostly small and medium-sized concerns that require little capital and produce quick results. On the other hand, the zone has imposed strict controls on industrial projects that process foreign materials, consume energy heavily, and cause pollution. As far as technology is concerned, most of the technology it has imported is the most advanced today, including programmed silicon technology, Dacron finishing technology, and cell combination technology.

In the course of development, the zone has adhered to a dual approach--developing the infrastructure as well as attracting foreign projects. Currently 17 construction units from other provinces and municipalities as well as Tianjin are at work in the zone, putting up 27 projects within a 3-square kilometer "starting zone." Phase 1 of the development of the 40,000-square meter residential sector, is scheduled for completion by year end. It will include staff quarters, apartments for foreign businessmen, and service

facilities, and will be formally operational next year. Of the 100,000 square meters of factory space in the production sector, 30,000 have been built and made available to users. Two enterprises are now in operation and will be joined by 15 others by the end of 1986.

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ECONOMIC ZONES

INCREMENTAL APPROACH PAYS OFF FOR SHANTOU

Beijing LIAOWANG [OVERSEAS EDITION] in Chinese No 31, 4 Aug 86 pp 10-11

[Article by Cai Dongshi [5591 2639 1102] and Xiao Li [5618 0500]: "Shantou Special Economic Zone Reviewed"]

[Text] It took just 4 years of painstaking work to open up a road to the Shantou Special Economic Zone [SEZ], to put up factories, and to give concrete form to a new town. Infrastructural investments so far are estimated to approach 200 million yuan. A 2.3-square kilometer area, including the Longhu industrial district, a harbor, and the Zhuchi agricultural and aquatic district, has been developed. Under construction is 600,000 square meters in floor space. Contracts have been signed for 275 projects, worth HK\$2.1 billion in total investments, including those financed by foreign capital, jointly funded with the interior, and operated solely by the zone. Among major completed infrastructural projects in the Longhu district are a 110,000-volt transformer station, a 3,000 ton dual-purpose terminal for both containerized and bulk transportation, telephone lines for 1,500 telephones, 12 industrial buildings with a total floor space of 140,000 square meters, and warehouses with a combined floor space of 20,000 square meters, not to mention such facilities as hotels, shopping centers, living quarters, and offices. On the basis of the comprehensive plan, the Guangao district devoted itself to laying the groundwork. The results were a 35,000-volt transformer and a 12.9 kilometer highway. Four passenger ships directly connect Shantou to Hong Kong.

The beginnings of an all-round, export-oriented economic zone, dominated by industry and agriculture but embracing transportation, commerce, tourism, finance, and real estate, have emerged in Shantou.

First Step: 0.2 Square Kilometer

The State Council originally set the area of the Shantou Special Economic Zone at 1.6 square kilometers, later increased to 52.6 square kilometers with the addition of the Guangao district. Faced with a vast stretch of land waiting for exploitation, the SEZ adopted an incremental policy, moving one step at a time.

In the first 2 years, it began by developing a small plot measuring 0.2 square kilometer where it put up three general-purpose factories and a guest house with only 52 rooms. A number of enterprises had their beginnings here. As its first labor gradually bore fruit, the zone went on to develop a second piece of land, 0.24 square kilometer in area, in 1984 and built a number of general-purpose factories. It has consistently abided by this one-step-at-a-time approach since then, an approach which helps keep projects on a small scale, involves limited outlays, and makes for quick, visible results. Two years after construction went under way on the infrastructural projects, they have already begun to pay off. The pace of development has been slow but steady, and booms and busts are totally unknown here.

"The 0.2 step." This has become a watchword in Shantou, summarizing the zone's way of acting according to its capability and steady-as-you-go spirit. This pragmatism pervades the entire development process.

The zone had a choice when it decided to build its own harbor: It could pick one of these two plans. The first plan was expansive, involving land reclamation, road construction, and the building of a new dam and a 500-meter bridge approach. Its price tag: more than 30 million yuan. The second plan, more modest in scope, called for the construction of only a 100-meter bridge approach and was less than half as expensive as the first plan. Moreover, the handling capacity of the projected facility in this plan was exactly what the zone needed. The SEZ selected the latter plan. As a result, it was able to limit its expenses and got a harbor ready for use a year after construction started. Since the harbor became operational in September 1985, its handling capacity has averaged 5,000 tons per month. Over the past 4 years and more, the zone invested almost 200 million yuan in the infrastructure and has been able to recoup close to 100 million yuan in the form of taxes and other receipts. This kind of yield has proved attractive to foreign and domestic investors. According to incomplete data, of the 120 foreign-owned enterprises in the entire nation today, one fifth can be found in the Shantou SEZ.

The Steady March Toward An Export-Oriented Economy

From the outset, Shantou was resolved to seek foreign investments as its main funding source, emphasize industry and agriculture as the mainstay of its economy, and target the international market so that its will be a truly export-oriented economy. Thus far 68 percent of the total investments of the projects on which contracts have been concluded originate overseas. More than 60 percent of the zone's infrastructural investments have been devoted to agriculture, industry, or transportation. Over 60 percent of the zone's industrial products are exported, while the proportion of agricultural and aquatic exports is a high 90 percent.

At present Shantou has yet to develop its own core industries and a considerable portion of its exports consists of processed goods or merchandise shipped from the interior to the zone for "finishing touches." But it is working hard to foster a host of export-oriented production enterprises. A number of enterprises which originally confined themselves to trade have switched to production. The zone demands that all new enterprises be of a

decent size, use relatively advanced technology compared to that in the nation, sell their products in the world markets or use them as import substitutes, and achieve outstanding efficiency.

For a long time to come, the zone will focus on light industries that consume little energy, cause little pollution and yield handsome economic benefits. As for products, the preference is for "exquisite, small, light, and novel" items. Most of the enterprises in the zone are expected to be small and medium-sized concerns. As for industrial structure, the stress will be on the food, ceramic, and electronic industries, which are fairly well-established technically and can take advantage of ample resources. Simultaneous efforts will also be made to develop the plastic, chemical, machinery, textiles, and toy industries.

The food industry will make use of abundant agricultural and aquatic resources available locally to develop sophisticated health foods, convenience foods and traditional foods of a local flavor. The ceramic industry will import advanced foreign technology energetically with a view toward developing upscale consumer ceramic products, artistic ceramics, and ceramics for building purposes in the near future and precision ceramics and functional ceramics further down the road. The electronics industry is to concentrate on parts and components as well as communications and ultrasonic medical equipment.

In agriculture, the zone will step up the import of new varieties from abroad and adopt new technology, focusing on popular fruits and vegetables with the Chaozhou and Shantou flavor, eg., Chaozhou orange, mustard processing, and rare, high-grade vegetables. The emphasis in aquaculture will be on salt water and freshwater breeding, paying particular attention to prawn and eel.

The Engine For A Regional Economy Covering 50,000 Square Kilometers

Even as it seeks to attract foreign capital and import advanced equipment, Shantou has gradually consolidated its economic ties with the interior. Its dependence on the economic hinterland in eastern Guangdong and the city of Shantou is an important reason why the SEZ has been able to put together a relatively favorable investment environment with limited inputs. From now on, the zone will be a key engine that drives the economy of the hinterland.

To promote the economy of eastern Guangdong, an area covering about 50,000 square kilometers, industries in the zone must redouble its efforts to introduce advanced technology and equipment so as to contribute to the technical modernization of old enterprises in the city of Shantou and other places. Agriculture in the zone must apply itself to the import of superior varieties and processing technology and equipment, and popularize throughout the vast countryside valuable varieties and technology through pilot projects.

The zone will take measures to better live up to its "window," "leader," and "laboratory" billing. A large number of mini-industrial districts, with the township as the basic unit, will be set up in the extensive rural belt within the SEZ to complement the existing industrial zone and form a multilevel

investment environment to meet the diverse needs of foreign and domestic investors. Capital should be raised in a multitude of ways; apart from the absorption of foreign capital, members of the public can pool resources and invest as an entity. A unit may also buy shares in a company. Preferential treatment should be given to investors where fees and charges are concerned. A "centralized collection" method should be devised to simplify fee payment procedures and formalities and make things easier for investors.

In general, Shantou aims to develop itself into an all-round, export-oriented economic zone where foreign capital dominates, where industry takes center stage, and where agriculture, aquaculture, and industry can develop in a coordinated way. Projected total investments between 1986 and 1990 are 1.2 billion yuan, of which 60 percent will go to industry. By 1990, the estimated gross value of industrial and agricultural output in the zone will reach 600 million yuan annually.

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FINANCE, BANKING

DIVISION OF LABOR IN CHINESE BANKING

Beijing ZHONGGUO JINGJI TIZHI GAIGE [CHINA'S ECONOMIC STRUCTURE REFORM] in Chinese No 5, 23 May 86 pp 20-22

[Article by Wu Lanjun [0702 5695 0689]: "A Preliminary Look at Division of Labor in Chinese Banking"]

[Text] Division of labor enhances efficiency and improves labor productivity. The People's Bank of China specializes in discharging the functions of a central bank, which puts it in a good position to pool information and knowledge and improve work methods in such areas as macroeconomic control and financial management. Specialized banks concentrate on specific services like deposits, lending, and the settlement of accounts, which promotes the enrichment and collection of knowledge and technology. This division of labor is correct. But there are still two weaknesses in practice. First, grassroots institutions under the People's Bank are ill-equipped to discharge the functions of a central bank. Apart from formulating financial policies and taking care of the issue of currency and credit planning, the People's Bank depends on specialized banks for the actual implementation of most of its managerial and control functions. In some localities, there are no People's Bank offices at the county level. In those places, the People's Bank asks the specialized banks to do its work on its behalf. This takes the central bank one step removed from the transmission of orders to subordinate levels and the collection of information. As a result, information circulation is delayed, information becomes distorted, and feedback is interfered with. Managerial information is also difficult to collect. Second, specialized banks are not specialized enough. Besides their own specific duties, they are entrusted by the People's Bank to manage enterprises financially. With their functional dualism, specialized banks cannot achieve specialization, turn themselves into enterprises, or make the most of technical efficiency.

Division of labor between specialized banks lacks a necessary basis. Take, for instance, the division of labor between the two largest subsystems in the banking system, agricultural banks and industrial and commercial banks. While they serve different clienteles, the nature of their services is basically similar. To the credit personnel in the two subsystems, industrial and commercial credit and agricultural credit each have their special characteristics, and specialized division of labor facilitates their work in their respective jurisdictions. Yet this division of labor does not

necessarily involve the existence of separate banks. It can be effected through the addition of credit departments or credit personnel in existing banks.

Besides, there is a lack of organic interactive mechanisms between the central bank and specialized banks. Central banks overseas discharge their functions with three major tools--deposit reserve rate, open market services, and discount rate. Yet only the first tool is available to the People's Bank, and a rarely used one at that. If we envision the entire bank as a giant system, the opening of bank branches in recent years has had the following effects on the banking system:

Externally, it has slowed and impeded capital circulation. The opening of branches by specialized banks, especially the implementation last year of the new capital control system, has resulted in an elongated circulation channel, notably slowing down capital circulation. Some rural market towns, for instance, used to have just one people's bank, and account transfers were taken care of instantly. In the wake of organizational separation, one must go through four offices--the business office and county branch of the Agricultural Bank, the county branch of the Industrial and Commercial Bank, and four business branches--to clear a sum of money, thus making the formalities four times as complicated for no good reason.

The Crux of the Division of Labor in Banking

Before we discuss division of labor in banking, we must first have a clear idea of the kind of work banks do. In other words, we must first understand exactly what the functions of socialist banks in China are. The central bank performs the functions of a central bank. Specialized banks perform the functions of specialized banks. Between them the central bank and specialized banks supplement one another functionally in some ways and overlap one another in others. When we discuss division of labor, we must leave aside the existing division of labor in banking and envision all banks as part of a giant system to get a functional overview. In my opinion, the banking system has the following basic functions:

Formulate financial principles, policies, laws, and systems (hereafter abbreviated as the decision-making function); draw up a unified financial plan (planning function); carry out all kinds of financial management (managerial function); control the issue of currency and regulate money supply (issue function); act as an agent for the national treasury (treasury agency function); make loans (lending function); and handle the transfer and settlement of accounts (account function).

Now let's classify these basic functions. Clearly the first three (decision-making, planning and managerial) are administrative functions, while the last three are economic functions. To discharge its administrative functions, a bank must be an administrative agency, whereas to discharge its economic functions, it should be an enterprise. Consequently, at the heart of the division of labor in Chinese banking is the separation of government and

business. The functional separation of banking institutions has not had the anticipated effects so far mainly because of our failure to grasp the crux of the matter.

Reform the Present Financial System In Accordance with The Principle of Separation between Government and Business

1. Once we are clear about the division of labor between government and business, which lies at the heart of the problem, we will know how to divide up the work between different banks. The division of labor between government and business requires two kinds of institutions within the banking system: administrative institutions and enterprises. Then different functions can be assigned to the two so that between them they perform the full range of functions of the nation's banks. Of the eight banking functions mentioned above, decision-making, planning, and managerial functions can be assigned only to an administrative institution, while deposit, lending, and accounts functions only to enterprises. As for the issue and agency functions, given China's socialist conditions, they are more administrative than economic and should be assigned to the administrative institution. Even after banks are separated, the question of cooperation remains. Turning to the relations between administrative organizations and enterprises, the former are responsible for supervising and providing services for the latter, while enterprises are obliged to carry out whatever tasks assigned to them by the organizations.

2. When we say division of labor, we mean division of labor within the present framework. The People's Bank of China is a central bank and an established financial and administrative institution. But it should be strengthened so that it can directly discharge the various functions without relying on other banks. Accordingly, the People's Bank of China must be further improved organizationally. It must have an organizational presence in every county at least. In economically developed market towns, moreover, the bank should set up offices or station special representatives to directly handle inter-bank relations at the local level and discharge its financial and managerial functions.

The commercialization of banks, of course, is to be carried out using existing specialized banks. To my mind, it is the local bank that should be the counterpart to the central bank. Its functions are to accept deposits, make loans and handle account transfer and settlement. The relations between the local bank and industrial and commercial enterprises is one between lender and borrower on an equal footing or between one who commissions a job and one who accepts a commission. The distribution of local banks should coincide with economic regionalization. Since administrative divisions in China roughly overlap economic divisions, provinces can set up provincial banks, prefectures, prefectural banks; counties, county banks. Economic regions that straddle administrative divisions can also put up their own banks. All these banks should be independent economic entities, not subordinate to one another. With their ample funds, provincial banks may handle the deposits of province-run enterprises and large-scale factories and mines and make loans to them.

County banks, for their part, can deal with small and mid-sized enterprises. County banks flush with funds can also voluntarily deposit their sums with the central bank or provincial bank. A provincial bank may decide to lend to a county bank. Local banks may also set up their own branches or go in for specialized division of labor. However, division of labor must be based on the characteristics of banking and should have a positive magnifying effect. For example, a bank should operate differently in the public sector than it does in the private sector. Commercial banks and savings banks may be set up to take care of different clienteles. Operationally, credit and accounts settlement are separate, so there is a case for establishing account settlement banks and credit banks. The division of labor of local banks should be determined by local circumstances; there should be no arbitrary attempt to impose uniformity. Commercialized local banks should naturally be profit-motivated. Needless to say, between local banks and the local government bureaucracy there should be a separation of politics from business. The local bank should go about offering financial services on its own under the guidance of the central bank; local government agencies must not intervene in them administratively at will.

Perfecting a Multi-Level Management System

1. Control is essentially a function for the central bank, an administrative organization. Following division of labor, the central bank may assume direct control over the national economy. Alternatively, it may establish special machinery to exercise indirect control. As for the relations between the two, it should essentially be one of indirect control. The central bank should strictly control the total money supply by limiting the amount of lending it makes to local banks and by controlling the deposit reserve rate. The central bank may also control the money supply flexibly up to a point by manipulating the interest rate. Once economic conditions are ripe, it may even use open market operations and rediscount services as supplementary tools. The central bank may control the geographical distribution of money by varying the amounts of lending it makes to local banks in different areas. It may help readjust the industrial structure by discounting the interest of certain kinds of loans. When lending to enterprises that produce, supply, and market grain, for instance, the central bank may subsidize their interest. When lending to enterprises that produce cigarettes, liquors and other substances whose output needs to be limited, the central bank may deduct interest. To ensure that the various financial principles and policies are implemented, the state must establish the leadership of the central bank in banking through financial legislation. The central bank at all levels must organize a contingent of competent workers capable of inspecting and supervising the full array of work of the local banks within their jurisdiction.

2. Competition among local banks, which have scant financial resources, will make them even riskier propositions. The central bank should offer deposit and loan insurance to protect the banks' credit and depositors' interest. Since local banks are relatively scattered, the central bank should assume the overall responsibility for inter-bank transfer and accounts settlement so that once money leaves a local bank, it will be channeled into the nationwide banking system. This way social capital circulation is accelerated. Local

banks everywhere will be held responsible only for their own fund sources and uses, while all other transactions are considered dealings with the central bank. In short, indirect control by the central bank should base itself on the self-interests of local banks so that the latter can reconcile their optimal control objectives with those of the entire banking system on the basis of equal competition, and voluntarily do their best to bring about the optimalization of the banking system.

At a time when different ownership systems coexist in China, it is not enough to have two kinds of financial institutions--the central bank and local banks. We must also encourage the formation of a financial market and allow credit unions of a collective nature and financial service cooperatives to exist. They should be allowed to engage in a scientific division of labor among themselves in accordance with their respective characteristics. We should establish effective multipolar mechanisms, a uniquely Chinese multi-level management system, and a well-regulated socialist financial system.

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FINANCE, BANKING

TRENDS OF PRC BANKS IN HONG KONG

Guangzhou GANG AO JINGJI [HONG KONG AND MACAO ECONOMIC DIGEST] in Chinese No 6, 20 Jun 86 pp 32-33

[Article by Gan Changqiu [3927 7022 3061]: "Trends of PRC Financial Institutions in Hong Kong"]

[Text] There are two kinds of relations between the interior and the financial market in Hong Kong: (1) relations between a city, industry or enterprise in the interior, on the one hand, and the Hong Kong financial market or a particular financial institution, on the other. It is an off-shore kind of relations in which the two parties interact with each other as independent entities. (2) relations between Hong Kong branches of Chinese financial institutions acting as part of the Hong Kong financial circle, on the one hand, and other parts of the Hong Kong financial market, on the other. This relations in itself is part and parcel of the activities of the Hong Kong financial market within the colony. In another way, however, it is also an expression of the connections between the interior and the Hong Kong financial system. Over the long haul, such connections will become more and more dependent on the Hong Kong branches of Chinese financial institutions, so it is crucial that we study the latter's activities.

(1)

The status and functions of Chinese banks in Hong Kong change as the world economy, China's open door policy, and Hong Kong's future change. The changes they have undergone have made them much more powerful and significantly enhanced the impact of the Chinese factor on the colony's financial market. They have also made for closer ties between the interior and the financial and other sectors in Hong Kong.

The first change to appear in recent years is a new guiding ideology in the way they do business: What was once a conservative philosophy has given way to a more enterprising attitude. Before 1978, China emphasized self-reliance and pursued a so-called "debt-free policy at home and abroad," isolating itself from the world. Branches of the Bank of China and other Chinese banks in Hong Kong were subject to endless restrictions in their operations. Their methods of operations were inflexible, being limited to: 1) traditional financial services, eg., deposit, lending, and the processing of import and export bills

of exchange; 2) financial services related to China (overseas Chinese remittance and other services required by mainland-Hong Kong trade or China's international trade); and 3) transactions with old clients. There were a lack of initiative to go out and attract more clients and a reluctance to take risks. As a result, business expanded only slowly and remained limited in scope; thirty years of stagnation have made for slow-growth Chinese banks in Hong Kong.

After 1978, the Chinese Government adopted an open door policy and committed itself to attracting foreign capital to accelerate the four modernizations. Gradually Chinese banks in Hong Kong shed their conservatism and became more enterprising.

(1) From "going it alone" to joint advancement.

In the past, Chinese financial institutions in Hong Kong were isolated units that often took a "go it alone" approach to participation in Hong Kong economic development. Now that has changed dramatically. Today they are cooperating with foreign and Hong Kong banks in a variety of ways to develop financial services. For instance, (1) the Bank of China, the China Resources (Holdings) Co, Ltd, the First National Bank of Chicago, and the Industrial Bank of Japan, Ltd, jointly founded the Zhongzhi Xingye Financial Company to raise capital to finance development inside China, on the one hand, and beef up the financial muscles of Chinese banks in Hong Kong, on the other. (2) In June 1983, the Bank of China group set up the Hualian Tongbao Co, Ltd in conjunction with 20 banks, including the Chase Manhattan Bank, Nantong Bank of Macao, Shanghai Commercial Bank, and East Asia Bank, both of Hong Kong. (2) In a move touted at the time as "Chinese capital helping British capital," the Bank of China group in February 1984 joined a 14-bank consortium including Hong Kong and foreign banks to make a 4-billion-yuan loan to Hongkong Land. (4) Chinese banks have been participating in the lending activities of other banking syndicates to finance development in Hong Kong and the four modernizations on the mainland. In addition, Guangda Company has teamed up with Xinhua Real Estate Company, Shenye Company, and Kumagai Gumi Co, Ltd, of Japan to go into real estate, while covering the insurance business on the side. All these joint actions have had a positive impact on Hong Kong.

(2) From absorbing capital to supplying capital.

In the past the guiding philosophy at Chinese financial institutions in Hong Kong was to think of ways to absorb capital in Hong Kong to finance the vastly expensive projects in the four modernizations. Today, however, not only do they continue to tap Hong Kong's capital market, but they also invest heavily in Hong Kong. A most prominent example of this is the joint venture involving the Bank of China and the China Resources (Holdings) Co, Ltd, the Xinqiong Company, which put up HK\$180 million to take over Kangli Investment Co. The Bank of China has bought 90 percent of the shares of China Cement Co (Hong Kong) Ltd. In March 1986, the China International Trust and Investment Corporation purchased 95 percent of the shares of Ka Wah Bank for 350 million yuan. The Bank of China has also gone into partnership with Hong Kong Chinese capital to form the Hong Kong and Macao International Investment Co, Ltd. (Its share of the outlay amounted to HK\$200 million.) According to 1984

statistics, total investments by Chinese banks in Hong Kong, including investments in the non-financial sectors, have exceeded all investments in the interior by Hong Kong industry, commerce, and finance.

(3) From preoccupation with one line of business to diversification.

Chinese financial institutions used to focus their resources on banking and insurance. They expected only steady gains from gold and invested in real estate only as far as their main line of business required. As for stocks and futures, these were kept at arm's length. No longer. Besides furthering their traditional banking operations, Chinese financial institutions (1) have issued bonds and certificates of deposit; (2) set up a leasing company (Dingxie International Leasing Co, Ltd) with Industrial Bank of France and the Bank of East Asia, a local bank; (3) ventured into real estate, entering bids for and contracting to build several projects; and (4) bought and sold gold and silver on behalf of clients, an activity now involving all Chinese financial institutions in Hong Kong. In an even more spectacular move, Xinhua Bank, Baosheng Bank, and a number of Hong Kong professionals set up the Zhongmao Securities Co, Ltd to trade in stocks. The company operates in the same way as most stock brokerage firms, a clear sign that Chinese financial institutions are throwing themselves into the stock market. Although no Chinese institution is traded on the stock market, Chinese banks have bought into a number of publicly traded companies (such as Kangli and Ka Wah Bank) and are becoming active through them.

(4.) From Consolidation to in-depth Development.

As the world economy develops, and particularly because of the explosion in science and technology, investors are focusing on the process whereby natural resources become capital, information, and human resources, and realize that information and expertise are far more crucial than capital. In a speech at the Chinese University of Hong Kong, Jiang Wengui [5592 2429 2710], (former vice chairman of the Bank of China and concurrently general manager of the Hong Kong branch) emphasized time and again the importance of human resources. (See special report in XINBAO, 15 January 1985.) Some scholars (such as Zhang Wuchang [1728 0063 1603], head of the Economics Department of Hong Kong University) also believe that whatever foreign exchange China may earn from Hong Kong will be far less significant for the four modernizations than the exchange of scientific and technological information. (CAIJING RIBAO, 9 February 1985.) This explains why Chinese financial institutions have put information and qualified personnel on their agenda and are energetically seeking to attract and promote local experts to make themselves stronger. (See article by Wang Deyan [3769 1795 5888], president of the Bank of China, in ZHONGGUO JINRONG, February 1986.) Chinese financial institutions in Hong Kong went computerized in the early 1980's, which was a huge success.

(2)

By changing their business philosophy, Chinese financial institutions have had remarkable achievements, becoming the second largest banking group in Hong Kong after the Hongkong and Shanghai Banking Corporation, which is British-owned. They make up the third leg of the triumvirate in the Hong Kong Banking Association, the other two being the Hongkong Bank and Chartered Bank, another British bank, and enjoy increasing clout in the banking circle. In March 1985, Jiang Wengui appealed to all Chinese-financed banking institutions to

unite and advocated the establishment of a "bank loan association" ("discount window") to facilitate the pooling of financial resources by Chinese banks and Hong Kong banks. His proposal won the support of Hong Kong Chinese banks, and the status of Chinese banks in Hong Kong is rising by the day. An article titled "The Emerging Chinese Challenge to the Hongkong and Shanghai Banking Corporation" that appeared in the October 1985 issue (number 103) of XINBAO YUEKAN pointed out that as they bestir themselves to catch up, Chinese banks are posing a threat to the British monopoly, leaving the Hong Kong British authorities no choice but to make an exception and let the Bank of China sit on the Hong Kong banking advisory committee.

Owing to its longstanding conservative policy in the past, however, the abrupt shift to an enterprising mode of operations has caused some problems, eg., the failure to keep pace with the times. Even errors have been committed.

At present Chinese banks in many ways remain less sophisticated than local or foreign banks, particularly the more aggressive foreign banks. Given time, however, they can gradually catch up. A more serious problem is flawed decision-making, particularly where bad debts are involved. The move to buy up the shares of Kangli Investment Company, Ltd, for example, was a setback and resulted in losses. This is because: (1) Chinese financial institutions have yet to develop a good handle on market information; (2) they do not know or understand Hong Kong's industry and commerce and certain industrial and commercial personalities well enough; (3) they have not yet totally broken the habit of replacing economic analysis with political concepts; and (4) they do not have enough qualified personnel.

These are problems inherent in the development process. Even a veteran like the Hongkong and Shanghai Banking Corporation was badly burned in the Carrian Group affair. As novices to the capitalist game, Chinese financial institutions have inevitably stumbled at the beginning. We should consider this a learning experience. Actually when it saw what was wrong with "Kangli," "Xinqiong Company" immediately took various legal and economic measures to salvage the situation. By late 1983, Kangli had been restored to profitability and Chinese financial institutions have also learned a lesson.

More than anything else, foreign (including British) banks and local Chinese banks set up shop in Hong Kong to make money. While Chinese institutions in Hong Kong must also operate with a view toward making a profit, there is an even more vital mission beyond money: provide more financial services for the country's four modernizations and offer a solid financial guarantee for Hong Kong's stability and economic prosperity during the transitional period and even after China resumes sovereignty over the colony in 1997. This is a more arduous mission than those faced by foreign and Hong Kong Chinese banks, and arduous as it is, it will do much to motivate Chinese banks to be more enterprising and forward-looking in their operations.

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FINANCE, BANKING

BANKS TO TIGHTEN FINANCIAL CONTROL

Hong Kong CHING-CHI TAO-PAO [ECONOMIC REPORTER] in Chinese 28 Jul 86 p 19

[Text] Measures taken by the Chinese Government to tighten financial management and invigorate the economy are closely watched by financial and economic circles abroad. In the second half of 1985, in accordance with a series of instructions by the State Council on holding the line on credit, banks and financial institutions have successfully stepped up financial control on the macroeconomy and sought to invigorate the financial sector by attracting savings deposits energetically, withdrawing currency from circulation, reducing and recalling unjustifiable loans, limiting borrowing by township and town enterprises and other fixed assets loans, and clamping down on the growth of consumption funds.

At present China's financial situation has improved. First, the scale of lending by and large has been brought under control. Second, banks at all levels have made a mighty effort to encourage savings. Urban and rural savings deposits have been going up month after month, expanding by 22.4 billion yuan in a year to reach 89.5 billion yuan in 1985. Rural savings showed a balance of 72 billion yuan last year, up 18.1 billion compared with 1984. In the first half of 1986, urban and rural savings rose by more than 30 billion yuan, or 47.5 percent, over the same period last year. In late June, urban and rural savings totalled 192.6 billion yuan. Third, control on foreign exchange has been stiffened, the use of foreign exchange to finance imports has been curbed, and too liberal use of foreign exchange has been tentatively checked. The result of the effort to restrict borrowing is a less bloated money supply.

This year marks the beginning of the Seventh 5-Year Plan for National Economic and Social Development. What are the missions of China's financial institutions? They are, President Chen Muhua [7115 1970 5478] of the People's Bank of China emphasized, to consolidate the gains of tightening financial control on the macroeconomy, continue to abide by the principle of stricter control, carry on with the reform of bank commercialization, vigorously promote horizontal capital circulation through the use of various fiscal tools, gradually foster the development of a capital market, and further breathe life into Chinese finance.

In accordance with this general demand and within the framework of State Council policies and decisions and government decrees, Chinese financial institutions will adopt flexible business methods and launch all kinds of financial services both domestically and internationally in a pioneering spirit. They will draw upon the successful experience of foreign banks and open up new operational channels in an all-out drive to diversify and internationalize their business.

Specifically, banks and financial institutions have the following major tasks this year:

In domestic finance:

First, continue to eliminate the mentality of "eating from the big rice pot." Chinese banks were used to the budgetary appropriation method of financing. Today, we have reformed the channels of funding and replaced appropriations with loans. Before a project is granted credit, it should be subject to feasibility studies to determine its economic benefits and ability to repay the loan. Moreover, an enterprise that wants to borrow from a bank must have a good credit rating and make interest payments at scheduled intervals.

Second, strive to improve the quality of bank employees through rotation training for on-the-job employees and an ongoing effort to absorb graduates of institutions of higher education. Existing financial schools must be run properly and new ones should be built systematically.

Third, continue to untangle the relations between the central bank and specialized banks and other financial institutions, and between service and supervision. The main concern of the central bank is financial policy-making, while specialized banks are in the actual business of lending. The central bank should intensify its professional leadership over specialized banks and other financial institutions, tighten centralized management and credit control, and invigorate banking.

Fourth, master the full range of banking mechanisms and develop new forms of operation. The latter, such as the capital market and private fund-raising, will be tried out in pilot projects and then popularized gradually. Banks will be computerized and adopt advanced technology step by step in accordance with a plan. After a period of hard work, Chinese banks will be transformed into modern banking institutions that are scientifically managed and technically advanced, produce handsome economic benefits, have access to information, and provide good services.

Fifth, perfect banking legislation as soon as possible so that fiscal control is provided with a legal basis and there will be laws to ensure that banking takes place in an orderly way.

In international finance:

First, consolidate and strengthen existing overseas banks and insurance companies, diligently open new branches, initiate new lines of business, and replenish capital resources. China today has 340 banks and insurance companies abroad, which will be joined by new facilities in Sydney, Paris,

Tokyo, and Panama, among other places, in the next 2 or 3 years. Both banks and insurance companies should gradually open new branches overseas and enter the agent business.

Second, despite the drive to develop international banking, the present operational focus of Chinese banking is the Hong Kong and Macao area. As far as banking and the insurance business are concerned, the joint Chinese-British declaration should be adhered to as the guidelines in handling all matters. Chinese banks and insurance companies in other nations should take China's foreign policies as the guiding principles in their work. All Chinese institutions abroad should work hard to fulfill their tasks within the limits prescribed by local laws.

Third, make friends far and wide. The Chinese financial circle should unite with people in banking, commerce, industry and from all walks of life all over the world, particularly in the Hong Kong and Macao area where such cooperation is vital to economic prosperity and stability.

Fourth, play an active role as conduits of information. Banks and insurance companies must transmit information promptly and grasp favorable opportunities to attract foreign capital, import technology, and promote foreign trade and international economic and technical cooperation.

Fifth, steadily improve business and managerial standards. Chinese financial institutions overseas must be adept at applying the entire stock-in-trade of their foreign counterparts, launch a diversified range of services, and increase economic efficiency so that they will move closer toward becoming multi-functional banks and insurance companies.

Sixth, strengthen cooperation between banking, insurance, and trade. Chinese banks, insurance companies, and trading companies will cooperate closely with and support one another. Inevitably the development of trade will nurture banking and insurance, while banks and insurance companies will strongly support trade expansion. All sectors should exert themselves to contribute to the "four modernizations."

Chinese banking this year will continue the policy of strict control. On the other hand, it will also emphasize economic invigoration, give enterprises more leeway, and avoid the old tendency toward "overregulation." This is a positive measure indispensable to a successful open door policy externally and economic revival domestically. In order to prevent fiscal and financial chaos and protect reform, however, it is necessary to step up control at the same time.

Commenting on China's present financial situation a few days ago, Chen Muhua said that as a central bank, the People's Bank of China is a most crucial macroeconomic regulatory organization. As the regulator of the use of capital, the bank has done its part. Its status and functions will become more prominent as China's planned commodity economy develops.

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AGRICULTURE

PROVISIONAL RURAL TAX MEASURES ANNOUNCED

Provisional Taxes on Rural Products

Wuhan HUBEI RIBAO in Chinese 8 Oct 86 p 1

[Article: "Provincial Government Announces Temporary Measures for Collecting Agricultural Tax on Agricultural, Forest, and Special Products; Separately Collect Tax on Agricultural, Forest, and Special Products; Promote Overall Development of Agricultural Production"]

[Text] In order to promote the overall development of agricultural production, Hubei has decided to separately collect the taxes on agricultural, forest, and special products, starting 1 October. The decision is based on the State Council's "Several Regulations Concerning the Collection of Taxes on Income from Agricultural, Forest, and Special Products." In the light of actual conditions in our province, the Hubei People's Government formulated the "Provisional Measures of Hubei Province for Collecting the Agricultural Tax on Agricultural, Forest, and Special Products." The measures were announced at the end of September.

The "Provisional Measures" stipulate that all units and individuals engaged in the production of agricultural, forest, and special products and earning an income therefrom must pay tax on these products at the rate of 5-7 percent. Products subject to tax include: medicinal materials (primarily rhizome of Chinese goldthread, tuckahoe, tuber of elevated gastrodia, dangshen, danggui, tuber of dwarf lilyturf, rootbark of tree peony, root of herbaceous peony, dried rhizome of rhemannia, root of balloon flower, and the rhizome of Chinese atractylodes), tea, black (white) tree ears, day lilies, xiang fungi, raw lacquer, ramie, aquatic products (primarily mature fish, fry, tortoises, soft-shelled turtles, crabs, pearls, and white {red} lotus), Chinese alpine rush, reeds, logs, unprocessed bamboo, fruits (primarily oranges, tangerines, apples, pears, peaches, dates, and persimmons), tung tree seeds, Chinese catalpa, tea-oil seeds, and other agricultural, forest, and special products (primarily palm bark, cork, walnuts, and Chinese chestnuts). The amount of taxes to be imposed will be calculated as follows: When the agricultural, forest, and special products produce fairly fixed incomes, the tax will be calculated and collected according to the actual income from sales or the taxable income calculated from an estimate of the output value. When the income from products is not steady, the tax will be calculated and collected

based on the average actual output during the past 3 years and according to the taxable income calculated from the local intermediate purchase price.

The agricultural tax may not be collected twice, so when the same piece of land is subject to the agricultural tax, the agricultural, forest, and special tax may be calculated and collected as part of the total tax payment, as long as the agricultural tax responsibility is met. The tax revenue from agricultural, forest, and special products will temporarily be considered as local revenue on the county level, establishing its own separate account, and with specific sums to be used for specific purposes. Agricultural, forest, and special production funds should be established for each county (city), which will reuse the funds as they come in.

The "Provisional Measures" also stipulate that the collection of agricultural, forest, and special product taxes should be centrally organized by township (town) governments. The specific responsibilities will be borne by township (town) financial organs. Township (town) governments whose financial organs are ill-equipped to collect the tax may, with the agreement of the county (city) people's government, delegate responsibility to relevant organs.

Commentary on Above Article

Wuhan HUBEI RIBAO in Chinese 8 Oct 86 p 1

[Commentary by staff commentator: "Major Reform in Collection of Agricultural Tax"]

[Text] The Hubei People's Government has decided that it will collect separately the agricultural tax on agricultural, forest, and special products, starting on 1 October. This is another major reform, following on the change last year in the agricultural tax, which replaced tax payments in kind with monetary payments. It is a truly effective measure which will promote the overall and balanced development of agricultural production.

Tax collection is an economic lever. If the national economy is to develop in a balanced, harmonious, and stable way, full use should be made of this lever. Separate collection of the taxes on agricultural, forest, and special products uses this lever to ensure balanced growth in the production of grain and agricultural, forest, and special products.

We know that since the 3rd Plenum of the 11th CPC Central Committee and the thorough implementation of Party policies in the villages, production in Hubei of agricultural, forest, and special products has grown very quickly. Hubei has become one of the national centers of agricultural, forest, and special production. Under the same conditions, the income from agricultural, forest, and special production is higher than the income from grain crops. Along with the influence of price and tax factors, peasants feel that growing grain is not as good as working in agricultural, forest, and special production. Some peasants have even dug up grain fields to make carefully tended fish ponds or to plant trees or special products. This has created an improper distribution of labor within the various areas of agriculture and affected the growth of

grain production. If the agricultural tax on the income from grain is collected in the same way as the tax on agricultural, forest, and special products, taxation cannot properly function as a lever. The continuous growth in agricultural, forest, and special production will lead to still more unfair distribution of the tax burden. Separately collecting the tax on agricultural, forest, and special products can effectively solve this problem. This is objectively necessary for the development of the rural economy, is an inevitable result of trends within reform of the agricultural tax system, and also is in accord with the wishes of the peasant masses.

After agricultural, forest, and special production taxes are separately collected, part of the tax burden on peasants will increase somewhat. But compared with support funds from the state, the amount of increase is small. According to statistics, financial departments in Hubei have supported agricultural, forest, and special production with more than 300 million yuan. But after agricultural, forest, and special production taxes are separately collected, Hubei will only receive more than 20 million yuan, which is merely 6 percent or so of the financial support and about 3 percent of the total income from sales of agricultural, forest, and special products. Divided among tax-paying households, the average tax per household will only be above 2 yuan. Furthermore, all of the agricultural, forest, and special product tax revenue will stay in the county (city), and will be primarily used to support production in these areas and to solve the problem of insufficient funds. This will certainly spur further growth in agricultural, forest, and special production. There is no reason to worry about the separate collection of the agricultural, forest, and special production tax increasing the peasants' tax burden or affecting the growth of agricultural, forest, and special production.

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AGRICULTURE

HENAN RIBAO ADVOCATES GETTING RICH FROM AGRICULTURE

HK040231 Zhengzhou Henan Provincial Service in Mandarin 2300 GMT 3 Dec 86

[Report on 4 December HENAN RIBAO Commentator's Article: "It Is Also Possible to Get Rich by Relying on Agriculture"]

[Excerpts] In recent years, as the rural areas have implemented the policy of opening up and invigoration, many parts of the province have vigorously developed township and village industry, thereby enlivening the economy and enriching the peasants. There must be no doubting the assertion that there can be no enrichment without industry. However, this certainly does not mean that those who engage in agriculture are bound to be poor and cannot get rich.

Fugou County has based its efforts on local strong points, guided the peasants to work hard to improve agricultural operating results, integrated agriculture with forestry, and also with animal husbandry, practiced scientific and intensive cultivation, and organized projects that require little investment, yield quick results, and can be operated by everyone. The results of all this may be a bit slower than from running industries. However, this is indeed a practical way for the peasants to get rich.

The article says: When we speak of agriculture now, we are not referring to the past single-product agriculture in which grain was taken as the key link, but to comprehensively developing large-scale agriculture including agriculture, forestry, animal husbandry, sideline occupations, and fisheries. There are many ways for the peasants to get rich by relying on large-scale agriculture, and the prospects are fine. However, each locality has its own strong points, and in relying on agriculture to get rich we must act in light of the local conditions; we cannot treat all localities the same way irrespective of the differences between them.

The article says in conclusion: Advocating reliance on agriculture to get rich certainly does not mean squeezing aside the development of township and village enterprises such as those engaged in the chemical, machine-building, mining, and metallurgical industries. So long as the conditions exist and the economic results are good, we should give free reign to their development. Even in the agricultural areas, when conditions are ripe we should vigorously organize township and village industries using agricultural and sideline products as raw materials, to promote a continuous increase in the value of those products.

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AGRICULTURE

RURAL MECHANIZATION POLICY, PROSPECTS DISCUSSED

Beijing LIAOWANG [OUTLOOK WEEKLY] in Chinese No 31, 4 Aug 86 p 9

[Article by Song Shuyou [1345 2885 0645] under the rubric "Reports on Special Topics": "Categorize Guidance and Make the Key Points Stand Out--A Discussion of Development Policy for Agricultural Mechanization in China"]

[Text] Implementing agricultural mechanization is an indispensable component in building modern agriculture. According on the Seventh 5-Year Plan formulated by the state, by 1990 the area plowed by tractors in China should reach 700 million mu and the area of electromechanical irrigation should reach 500 million mu. To realize this goal, how should we proceed along the road to agricultural mechanization in China over the next few years? Each locality proposes different ideas. Through investigative study and analysis of our experience in the past few years, we have come to the conclusion that we can suit specific measures to local conditions and continue to explore certain problems. As far as our general guiding ideology is concerned, we must sustain a policy of categorizing guidance and making the key points stand out.

China encompasses a vast territory, and each locale has different natural conditions and a different economic level. Cropping systems are also diverse. We cannot take one fixed approach in agricultural mechanization and stipulate that in such-and-such a year it will be achieved in a coordinated fashion nationwide. Rather, we should suit measures to local conditions, gear plans to actual circumstances, and develop agricultural mechanization methodically, step by step, with a focus in mind. From a national perspective, the focus of agricultural mechanization during the Seventh 5-Year Plan should be on the planting industry in economically developed and concentrated grain-producing regions. This will accelerate the rate of farm mechanization in commodity grain base counties and actively improve the level of mechanization in non-staple food production on the outskirts of medium and large cities.

"Economically developed regions" primarily includes Beijing, Tianjin, Shanghai, Liaoning, Jiangsu, Zhejiang, Shandong, and Guangdong. In these places, rural industry exists on a certain scale and a large portion of the labor force is rapidly switching to industrial and sideline occupations. Although in these places per capita land holdings are by no means large, the farm labor shortage problem grows worse day by day and there is a rather urgent need for agricultural mechanization. Right now the focus in this kind

region should be on getting mechanization under way in the planting industry, particularly in rice transplanting and in harvesting. At the same time, these regions should vigorously expand mechanization in forestry, animal husbandry, sidelines, and fishery in order to advance an appropriate scale of operations in agriculture, reduce income disparities between peasants working in agriculture and those working in industry, arouse peasant enthusiasm for grain farming, prevent food production shortages, and maintain coordinated growth throughout the rural economy.

Grain-concentrating regions primarily includes 11 provinces in all: Hebei, Jilin, Heilongjiang, Anwei, Henan, Hubei, Hunan, and Sichuan, which supply over 5 billion jin of commodity grain; and Liaoning, Jiangsu, and Shandong, which are economically developed regions with relatively concentrated commodity grain base counties. These provinces produce approximately two-thirds of the nation's grain and hold a decisive position in guaranteeing the supply of commodity grain nationwide. Generally speaking, in these regions the rural economy is just beginning to develop, there are not many avenues of economic diversification, and peasant income depends primarily on agriculture or on grain. In addition, in the northeastern region land is plentiful and sparsely populated, the frost-free period is short, and cold damage to crops is severe. In the south the multiple-crop index is high. There is typically a labor surplus, but during the peak agricultural season labor is insufficient. Farmers must depend on agricultural mechanization to ensure that the farming gets done in the right season, to guard against natural disasters, to improve labor productivity, and to alleviate the labor shortage. Consequently, in these regions we should make farm mechanization our key focus of concentration.

In view of the ever-increasing demand for nonstaple foods in the cities, it appears crucial for us to expand mechanization in nonstaple food production on the outskirts of medium and large cities. Over half of the total supply of chicken eggs in Tianjin is provided by peasant households operating chicken coops on the outskirts of the city. In the suburbs around Wuxi, Jiangsu, fishpond mechanization has been vigorously popularized, and there has been a notable increase in the quantity of fresh fish on the market. The problem of finding fish to eat has been speedily redressed. Thus, to make the lives of urban residents more comfortable, the suburbs of medium and large cities should focus on developing mechanization in nonstaple food production.

In economically underdeveloped regions and areas where agricultural production levels are rather low, in the near future farm production will continue to rely primarily upon manpower and animal power. In these areas, the focus of agricultural mechanization should be on processing and transporting agricultural and sideline products and on mechanizing jobs that are difficult to accomplish with manpower and animal power.

Based on the above guiding ideology, during the Seventh 5-Year Plan agricultural machinery departments will concentrate on controlling farm machine quality, providing complementary sets of implements, and resolving problems of insufficient energy supplies and so forth. Specifically, in agricultural machinery departments we must do the following:

1. We must strive to improve quality, suitably expand quantities, and control the pace of development. During the Seventh 5-Year Plan, annual growth in total motive power for agricultural machinery nationwide should be held to roughly 4 percent, for an average increase of 12 to 13 million horsepower. Hereafter, to prevent low-quality farm machinery from entering the rural market, absolutely no farm machinery that has not undergone a quality appraisal and obtained production and distribution licenses will be permitted to be produced or sold. At the same time, we must intensify development of high-power, low energy-consuming, highly comprehensive farm machinery and supply agriculture with a full assortment of high-quality, low-cost farm machines and equipment.

2. We must increase production of complementary sets of farm implements and improve the complementarity of the farm implements we produce. During the Seventh 5-Year Plan we project that the number of farm implements pulled by tractors will reach 2.2 units for every medium or large tractor and 1.38 units for every small tractor. Consequently, we must insist on complementary production and supply so that whoever produces power machinery also supplies accessory implements. At the same time, in state planning we must consider main engines and complementary sets of farm implements alike and supply raw materials and fuels at par so as to lower production costs.

3. To ameliorate gradually the lack of coordination between farm machine expansion and power supplies, we must readjust the composition of motive power sources in agricultural machinery and increase energy supplies for agricultural power use. During the Seventh 5-Year Plan, in regions where electrical supplies can essentially be guaranteed, machinery used on fixed crops should as far as possible employ electric power. Simultaneously, we must concentrate on vigorously developing new power sources in the countryside and popularize equipment and techniques employing wind power, hydropower, methane power, geothermal power, and solar power to compensate for the inadequacy of conventional power sources.

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AGRICULTURE

EXORBITANT PEASANT LEVIES CORRECTED IN JILIN

Beijing RENMIN RIBAO in Chinese 21 Aug 86 p 2

[Article by Ji Nong [0679 6593]: "Intensified Inspections and Conscientious Corrections of Irresponsible Apportionment Reduces Burdens on Jilin Peasants: Peasants Are More Enthusiastic About Investing Capital and Labor in the Land"]

[Text] Since Jilin put into effect the "Notice on Curbing Exorbitant Levies and Fees Imposed on Peasants" issued by the CPC Central Committee and the State Council, the peasant monetary burden has been brought under control. Based on data gathered from 48 counties (or cities and districts), the per capita monetary burden on peasants is 19 yuan, 8 jiao, 8 fen: about 4.37 percent of the 1984 per capita peasant income, or approximately 30 percent less than was imposed in 1985. Other fees are also becoming more equitable and may decline 50 percent or more compared with 1985. Farmers who formerly sought to withdraw from contract fields because their burden was excessive have given up the idea and have begun to increase their investments in the land. In the first half of 1986, Jilin farmers increased capital and labor investments in the land by 22.4 percent and 22.7 percent over the same period of last year.

--We are maintaining "fixed project quotas" and stringent controls. Based on eliminating inequitable apportionment, the provincial party committee and the provincial government stipulated that, at most, the annual monetary burden for unified rural public facilities fees and collective withholdings must not exceed 5 percent of the peasant income for the preceding year. They also required that, with the village as the accounting unit, projects to be undertaken must be calculated into the budget, and forecasting and final accounting systems must be put into effect. As for those departments that exceed quotas and yet are unwilling to constrict apportionment quotas, the provincial government supervises them and urges them to adopt measures to implement this policy.

--We are acting within our capabilities and making sure that our financial capacity will handle our undertakings. In the past few years, some departments have shouldered a great many projects to improve the countryside, and as often as not they have failed to consider how much the peasants can support. In some cases they have proposed that all schools, without exception, build encircling brick walls; in other cases they have wanted

peasants to put out money for certain departmental cadres to dress up or add to their equipment. To put a stop to this trend of grandiose projects, within Jilin we have guided departments in all fields to suitably readjust their project development plans. Furthermore, we have clearly stipulated that in setting up public works projects we must be sure to act within our capabilities. Each individual village must make decisions on its own and higher departments must not make inflexible assignments. Tonghua County revised the public works development plans formulated at the beginning of the year and was able to reduce the peasant burden by 390,000 yuan.

--By taking stock we are issuing fewer licenses and certificates. In the past few years, as many as 40 or more kinds of licenses, certificates, brands, and account books have been issued in the Jilin countryside. By taking stock in the offices and bureaus concerned, 6 kinds have now been eliminated, 7 kinds will no longer require a fee, and 14 kinds will be issued at cost. Each locality has returned to the peasants money collected for "grain-selling appointment certificates."

--We have established an inspection system to periodically correct exorbitant apportionment. In Baicheng Prefecture, after Fuyu, Tao'an, Tongyu, and Zhenlai counties established inspection systems they uncovered 1.3 million yuan worth of grossly inequitable levies assigned in the previous few years, and they have now found ways to return 600,000 yuan of that. From April through June of this year agricultural departments throughout Jilin also made a comprehensive inspection of "fixed project quotas."

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EXTENSION OF BIOENGINEERING GAINS DISCUSSED

Shanghai JIEFANG RIBAO in Chinese 6 Aug 86 p 1

[Article by Cao Yuhe [2580 3768 0735]: "Shanghai Succeeds in Using New Techniques To Breed Paddy and Vegetables: New Bioengineering Gains Now Extended Over a Broad Area, Shanghai Academy of Agricultural Sciences Sets Up a New Technical and Scientific Bioengineering Research Contingent"]

[Text] The first group of paddy, vegetable, fruit, and flower crops bred through bioengineering techniques at the Shanghai Academy of Sciences [SAAS] has come to fruition, and several varieties are now being broadly disseminated on farm fields.

It is just in the last few years that SAAS has to adopt on a large scale the new bioengineering technique of tissue culturing to breed new varieties, and it has already achieved notable success. Strawberries are a nutritious fruit, but because they easily contract viruses and suffer severe fruit deterioration they have long been in short supply on the Shanghai market. Scientific research personnel at SAAS set up a laboratory 2 years ago and, through test-tube culturing and propagation, mass-produced virus-free strawberry seedlings. In 1985, they sold over 800,000 plants to two Shanghai orchards, and to suburban farms, communes and brigades, and specialized households, resulting in a major improvement in the quantity and quality of strawberries on the Shanghai market at the beginning of the summer this year.

SAAS has also used new bioengineering techniques to breed vegetables and other crops with distinctive Shanghai characteristics. Jiading garlic bulbs have always enjoyed a high reputation and are one of Shanghai's traditional export products. However, because the sets easily contract viruses, in recent years garlic bulb output has dropped lower and lower and the percentage of exports has plummeted. SAAS used garlic stalk tips to make tissue cultures, reduced the virus hazard, and prevented the deterioration of garlic breeds. Since Fengbin Township in Jiading County used SAAS-supplied garlic sets in major field trials the output and quality of garlic bulbs have both improved this year.

In addition, SAAS has used new bioengineering techniques to breed new varieties of cyclamens, hyacinths, and other flowers, and it transplanted 12,000 hyacinths into fields in Chongming County last winter.

The Crop Research Institute was the earliest SAAS unit to use bioengineering techniques, and it has achieved notable success. After 12 years of research the institute has successfully bred the new "Xinxiu" and "Huasaizao" rice breeds by using the anther-culture-breeding method. "Huasaizao" rice is now widely sown on 1.5 million mu of land in Shanghai, Jiangsu, Zhejiang, Anhui, and Jiangxi, and other provinces and municipalities and over 200 counties. It has raised yields an average of approximately 30 kg per mu. Its features include early ripening, fine rice quality, cold resistance, and nondeteriorating seed. "Xinxiu" rice began to be widely popularized in 1974 and has been sown on over 800,000 mu of land. Its features include high yield and lodging resistance. The broad extension of these two new varieties is regarded by the international public in this field as the first instance of a successful broad application of new bioengineering techniques in rice breeding. At the invitation of a nongovernmental U.S. organization, the Crop Research Institute participated in the International Bioengineering Cooperation Network and initiated international cooperation to further research in new techniques of anther culture aggregate breeding methods. In May of this year the institute received the first financial aid offered by this organization. In addition, the Livestock Veterinary Research Institute is now studying cell microbodies and carriers and using microbiological theory to guide research into veterinary vaccines and the Edible Mushroom Research Institute this year began to study cellular fusion in black fungus. These research institutes all intend to gradually disseminate the findings gained from research problems.

Now SAAS has already formed a new technical and scientific bioengineering research contingent composed of 50 mid- and high-level scientific research personnel. With the attention and support of the Shanghai Planning Commission and the Shanghai Science and Technology Commission, in order to create suitable conditions for initiating further scientific research in this area SAAS has also established nearly 10 specialized laboratories to conduct this kind of research, built a 1,200-square-meter greenhouse, and allocated the necessary instruments and equipment.

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AGRICULTURE

EFFORTS TO MATCH 1984 GRAIN PRODUCTION URGED

Beijing LIAOWANG [OUTLOOK WEEKLY] in Chinese No 30, 28 Jul 86 p 6

[Article by Zhou Yichang [0719 6318 2512] under the rubric "The Sweep of Current Affairs": "We Have 180 Billion--Now Strive for 810 Billion"]

[Text] In issue No 11 of LIAOWANG we published an article titled "180 Billion and 810 Billion," which discussed the importance of concentrating on summer grain production. Now we have the summer grain harvest in hand and the yield meets our projected goal: gross output totals 183.76 billion jin, up 6.28 billion jin over 1985. This total is only 200 million-plus jin short of the historic high level set in 1984.

The figure 810 billion jin represents China's gross grain yield in 1984, and it is also the objective we are striving for in grain production this year. As everyone knows, due to diverse factors grain production declined in 1985. Consequently, the struggle to restore gross grain output this year to its 1984 level will not only affect stable growth in overall nationwide agricultural production, it will also have a crucial bearing on whether we realize the demands of the Seventh 5-Year Plan and achieve a harvest of 850 to 900 billion jin by 1990.

There are several conditions that favor us this year in our effort to restore the year's total grain yield to its 1984 level. First, by implementing 1986 Central Committee Circular No 1, everyone in China is concerned with guiding agricultural production and has increased agricultural investment, and peasant enthusiasm for growing grain has been improved. This is our foundation in striving for a bumper grain harvest. Second, the sown grain area this year is up 22 million mu over 1985 to a total of 1.65 billion mu. In addition, on our vast grain land this year there has been a rather large increase in the area devoted to paddy, corn, sweet potatoes, and other high-yield crops, and a decrease in the area devoted to soybeans, millet, variety grains and, other low-yield crops. As far as the state of current production is concerned, we have carried off a bumper summer grain harvest and made a good start toward raising grain output for the year. The 140 million mu of early rice is coming along fine and also promises a bumper harvest--in early-season areas the crop has already been harvested. The 1 billion mu or so of autumn grain crops look good, and this also provides a solid material foundation for our effort to bring in a bumper autumn grain harvest in 1986.

However, we should remember that, compared to summer grain crops, autumn grains have a short growing period and high requirements for water, fertilizer, sunlight, and warmth. Moreover, the time between summer and autumn is the period in which damage due to drought, waterlogging, wind, hail, low temperatures, blights, and insects easily and frequently occur. In addition, although China's grain land area in 1986 has been expanded over last year, it is still about 40 million mu smaller than in 1984. Figuring based on the current yield of 450 jin per mu, the area decrease alone will affect the yield by approximately 18 billion jin. Furthermore, some grain production incentive policies are still not very practicable, and there are pressing shortages of chemical fertilizer, diesel fuel, rural electricity, and other production inputs. Thus, if we are working for a bumper harvest, our job will be a hard one.

Recently an official in the Ministry of Agriculture, Animal Husbandry and Fishery said there are still 2 or 3 months before the autumn harvest, and each locality must be extremely vigilant: if we are a trifle careless it might have a serious effect on the autumn grain yield. To ensure an increase in autumn grain production this official exhorted each locality to do a solid job on the following tasks:

--Each locality must continue to carry out and improve economic policies. Those places that have not yet implemented certain preferential grain-farming policies proposed in 1986 Central Committee Circular No 1--such as "using industry to subsidize agriculture," developing special funds for grain production, and linking grain production to access to chemical fertilizer, diesel fuel, and credit--should get rid of the obstacles and adopt positive measures to implement them as quickly as possible in order to stimulate production initiative among the peasantry.

--We must enhance leadership and technical services in agricultural production. We must guide the farmers to make appropriate labor arrangements and to do a good job of cultivating and eliminating weeds, managing water and fertilizer inputs, and controlling blight and pest damages on spring- and summer-sown corn, midseason rice, late rice, and sweet potatoes. This will guarantee normal growth in autumn crops.

--Agricultural departments at all levels must go down to the grass-roots units and conduct fact-finding studies to help farmers solve grain production problems. In particular, they must further enhance lateral relationships, take the initiative to consult with the departments concerned, and as far as possible guarantee farmers a supply of chemical fertilizer, pesticides, diesel fuel, and rural electricity for autumn field management. Simultaneously, to make up for the insufficiency of potassic fertilizer, they must mobilize the masses to use every means at their disposal to extract potassic fertilizer from farmyard manure, and they must advocate returning rice straw to the fields in double-crop paddy regions. In addition, to improve fertilizer efficiency they must guide farmers to adopt the economical methods of applying potassium in rice seedling beds and through spraying.

--We must build an ideology based on preventing disasters and striving for bumper yields. Each locality should make complete ideological and material preparations to avert dangers by taking precautions. Right now drought conditions are appearing in central Henan, southern Hebei, and eastern Shandong, and waterlogging is cropping up in some southern regions. We must do a good job with drought prevention and water drainage and ensure a bumper autumn harvest.

--At the same time as we are working hard at autumn grain management, we must use every means at our disposal to encourage the diversified economy, develop a comprehensive rural economy, and ensure that peasant output and income rise. This year the three major areas in which incomes have risen for those peasants concerned--cash cropping, animal husbandry, and township and town enterprise--still face a number of problems. In cash cropping, the most prominent problem is that cotton-growing area has declined again this year, dropping 7 to 8 million mu since 1985. In animal husbandry a declining trend appeared in the first half of this year in hog and poultry production in some areas. In township and town enterprise, the rate of growth during the first half of this year was lower than during the same period of 1985. Consequently, we must take charge everywhere during the last half of the year, do everything possible to open up profitable new avenues of production, and strive for a bountiful 1986 harvest on all agricultural fronts.

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AGRICULTURE

400 KG OF GRAIN PER CAPITA SET AS GOAL

Beijing NONGYE JISHU JINGJI [ECONOMICS FOR AGRICULTURAL TECHNOLOGY] in Chinese No 8, Aug 86 pp 12-15

[Article by Chinese Academy of Agricultural Science: "China Must Not Have Less Than 400 Kg of Grain Per Capita"; "grain" includes cereals, tubers, and soybeans]

[Text] The 4th Session of the 6th National People's Congress approved in principle "The People's Republic of China Seventh 5-Year Plan for the National Economy and Social Development." The plan stipulates that during the Seventh 5-Year Plan the average annual grain output should be 415 million tons, an increase of 12 percent over the average annual grain output in the Sixth 5-Year Plan. In 1990 the output should be 425-450 million tons; figuring on a population at that time of 1,113,000,000, there will be 382-404 kg of grain per capita (400 kg will be used for all following calculations). Premier Zhao Ziyang, in his "Report on the Seventh 5-Year Plan," stated: "We should continue to stress grain production and strive to ensure steady growth in grain output." The grain problem is a major concern shared by everyone in the country. We will here discuss a few aspects of the problem and our opinions, which may serve as the basis for further discussion.

I Recognition of the Current State of Grain Production

China has had successive bumper harvests for the past few years. The total output in 1984 was 407,300,000 tons, 27 percent more than in 1980, an average progressive annual increase of 6.2 percent from 1981 to 1984. This rapid development brought China to a new level of basic self-sufficiency in grain. The amount of grain per capita rose from 325 kg in 1980 to 393 kg in 1984 (which is still below the world average of 429.5 kg). The once rather striking disparity between grain supply and demand is starting to diminish. This does not mean, however, that China has plenty of grain and that the problem of feeding the masses has been solved. Let us look at 1984, which had the largest grain harvest. In that year there were 20 provinces, autonomous regions, and municipalities directly controlled by the Central Government which had less than 400 kg of grain per capita. Only Jilin, Heilongjiang, and Jiangsu had more than 500 kg. Fourteen provinces, autonomous regions, and municipalities had less than 350 kg: Tianjin, Shanghai, Beijing, Tibet, Qinghai, Guizhou, Gansu, Yunnan, Inner Mongolia, Fujian, Guangxi, Guangdong,

Shanxi, and Hebei. To meet the need for human grain consumption and other uses of grain, these areas have to bring in several hundred million or several billion jin of grain; only in this way can supply and demand be balanced. Furthermore, supply and demand frequently become unlinked due to the limits of transportation, shipping, and basic facilities, making it difficult to promptly satisfy the demand. So even though grain output has increased in China as a whole, there are varying degrees of shortage in different areas. We cannot say the grain problem has already been solved.

In 1984 there were many places in China which experienced for a time difficulty in selling grain. At that time, our specific analysis showed that in some places there was a definite "excess" of grain. Because Jilin, for example, produced more of one grain--corn--than could be absorbed locally at one time, there was indeed a temporary difficulty in selling grain. But this was only a limited problem, caused by an imbalance in the development of different areas and the need to revise the distribution of grain crops. The difficulty in selling grain in other areas was not really due to an excess of grain, but rather was caused by blocked channels of grain circulation, poor storage facilities, unresponsive grain transfer, purchase, and sale policies, and low capacity for converting grain. The result was relative surpluses of grain on the local scale and relative surpluses of coarse and low-quality grain. This was a temporary, superficial occurrence. One year later, in 1985, when grain harvests were lower throughout China, there was immediately anxiety in many places about the grain problem. This also shows us, from a different angle, that grain remains a major current problem which China must conscientiously set out to solve.

II 400 Kg of Grain Per Capita Only Meets Basic Human Needs

The amount of grain per capita is closely linked to the composition of the diet. The world trends are that in most developing countries, 70-90 percent of the per capita grain is consumed directly; only 10-30 percent of the grain is used as animal feed or for other purposes. In developed countries, 10-30 percent of the per capita grain is directly consumed, while 70-90 percent is used as feed or for other purposes. The agricultural development characteristics and dietary habits of each country vary, and therefore the diet differs in various categories of countries which have reached a per capita output of 400 kg of cereals (only including rice, wheat, corn, and other cereals, not including tubers and soybeans). We can distinguish three major categories.

First category: a diet which primarily consists of Oriental food but which integrates Oriental and Western diets; Japan represents this type. In 1983, the total Japanese demand for cereal was 40.3 million tons. Of this, 14.06 million tons, 35 percent, were grown domestically; 26.24 million tons, 65 percent, were imported. The per capita amount of cereal was 338 kg. That year, the supply of [directly consumed] grain was maintained at about 150 kg per capita, including 110 kg of cereals (70 percent rice, 30 percent wheat), 18 kg of beans, 9 kg of tubers, and 13.6 kg of starch. Japan imports large quantities of feed to develop its own animal production. Currently, there are 23.8 kg of meat per capita, 14.6 kg of eggs, and 67.1 kg of milk and dairy products. (It is estimated that feed grain accounts for more than 40 percent

of the total quantity of grain.) In addition, there are 39 kg of seafood (mostly caught through fishing), which is a characteristic and strength of the Japanese diet. The nutrient levels supplied by the diet are: 2,593 calories, 81.6 grams of protein, and 79.9 grams of fat. In general, the Japanese diet has preserved the characteristics of Oriental food, as well as adding more foods of animal origin and improving the food quality. Of the calorie intake, 57-68 percent come from carbohydrates, 20-30 percent from fat, and 12-13 percent from protein. These proportions have aroused great attention in Europe and America.

Second category: the Western diet, as represented by the developed countries of Europe and America. In the 1950's and 1960's these countries reached 400 kg of cereals per capita. Now they have exceeded 750 kg per capita, and in some countries, such as Canada, the United States, and Australia, it is more than 1,500 kg per capita. For the most part they [directly] consume relatively small quantities of cereals (only 100-150 kg), but foods of animal origin account for a very large share, reaching roughly 100 kg of meat per capita, 100-150 kg of milk, and about 15 kg of eggs. The daily intake is 3,300-3,500 calories, 130-150 grams of fat, and about 100 grams of protein. This high calorie, high fat, high protein diet easily leads to obesity, diseases of the heart and blood vessels, and other unpleasant results. However, the consumption of foods of animal origin varies greatly due to different levels of economic development and different production structures, as we see when we compare several countries at the time they reached 400 kg of cereals per capita. Federal Germany, for example, reached 401 kg of cereals per capita in 1967. At that time, per capita consumption was 71.3 kg of meat, 115.5 kg of milk, and 14.5 kg of eggs. Czechoslovakia reached 400 kg of cereals per capita in 1960, with per capita consumption at that time of 56.8 kg of meat, 108.5 kg of milk, and 8.5-8.6 kg of eggs. The Soviet Union reached 440 kg of cereals per capita in 1950. At that time the per capita consumption was 26 kg of meat, 172 kg of milk, 3 kg of eggs, and 7 kg of fish. However, the common characteristic of all these countries was a reliance on plant-eating animals, with feed grain accounting for more than half of the total grain. Moreover, they had abundant pasture and forage crop resources, which allowed their animal husbandry to develop to a high level.

Third category: a primarily vegetarian diet, as represented by India, Indonesia, Thailand, and Pakistan. The average daily intake is 2,030-2,363 calories, about 50 grams of protein, and 30-40 grams of fat. In India, for example, the per capita amounts in 1984 were 225 kg of cereals, 1.3 kg of meat, 1 kg of eggs, and 48 kg of milk; 95 percent of the calories, 89 percent of the protein, and 78 percent of the fat came from plant products. Although the calorie intake of this diet can basically meet the body's needs, the food quality is not high, lacking protein and fat. This type of diet is nutritionally inadequate, and does not totally meet basic human needs.

Based on representative data from the past few years, the current pattern of grain consumption in China is 60-65 percent is directly consumed grain rations, 15-16 percent is animal feed, and the remaining 20-24 percent is used in industry, as seed, kept in storage, or wasted. The 1982 diet consisted of 230 kg of grain rations, 12.1 kg of meat, 2.8 kg of eggs, 1.3 kg of milk, and 2.6 kg of fish. In March 1986 the results were announced of the second

national nutrition survey, which was conducted in 1982. According to those results, the national daily per capita intake is 2,485 calories, 67 grams of protein (of which 11.4 percent are of animal origin), and 49.4 grams of fat. The current diet can provide sufficient calories, but because the proportion of foods of animal origin is on the low side, the quality of the protein still needs to be improved and there is insufficient calcium and vitamin B2. We should keep foods of plant origin as the foundation of our diet. But from now on, an important aspect of improving the diet will be to gradually increase the proportion of meat, eggs, milk, and other foods of animal origin, improve the quality of the food, and meet all the people's nutritional needs for calories, protein (especially animal protein), fat, minerals, and vitamins.

The 1990 goals for total output, as stipulated in the Seventh 5-Year Plan, are 22.75 million tons of meat, 8.75 million tons of eggs, 6.25 million tons of milk, and 9.00 million tons of aquatic products. Figuring on a population of 1,113,000,000 people, the respective per capita amounts are 20.4 kg of meat, 7.9 kg of eggs, 5.6 kg of milk, and 8.1 kg of aquatic products. According to both the normal proportions of feed concentrates consumed to make various animal products and the conversion ratios, roughly 100 million tons of feed grain will be required to produce the above animal products. When we add on 265.55 million tons of grain rations (235 kg is used as the average grain ration), seed grain, and grain used in industry, the total need for grain will exceed 450 million tons. Let us look at the current situation. The 1983 per capita grain consumption in the five provinces of Jilin, Heilongjiang, Jiangsu, Hunan, and Zhejiang was 419 kg, 61 kg higher than the national average for that year of 358 kg. Of the 419 kg, 326 kg (77.8 percent) of grain were used as staple and non-staple foods (including grain used in beverages), 55.5 kg (13.29 percent) as feed grain, and 37.5 kg (9 percent) for other purposes. Per capita consumption was 15 kg of meat, 3.6 kg of eggs, 6.1 kg of fish, and 2 kg of milk. Although the per capita grain consumption in these five provinces exceeded 400 kg, the consumption of food of animal origin still has not reached the current goals stipulated in the Seventh 5-Year Plan. According to 1982 data and statistics from 46 large, medium, and small cities throughout China, the actual grain consumption of the non-agricultural population of these cities was more than 400 kg per capita, merely reaching 181 kg of grain rations per capita, 20.8 kg of meat, 5.5 kg of eggs, 4.4 kg of milk, and 6.9 kg of fish and shrimp. Except for meat, the other foods of animal origin did not reach the level anticipated in the Seventh 5-Year Plan. Let us also look at the situation in Beijing, Tianjin, and Shanghai. In 1983 the per capita consumption in these three municipalities was 25.8-32.1 kg of meat, 9-12.1 kg of eggs, 6.6-12.8 kg of milk, and 7.8-16.8 kg of fish. In that year the per capita consumption of grain was 425.5-476 kg, of which grain rations accounted for 31.7-34.5 percent and feed grain for 32-36 percent. We should point out that China's total grain output does not merely consist of cereals, but also includes tubers and soybeans. In addition, more than 95 percent of foods of animal origin come from agricultural areas, which are to a very large extent dependent on the supply of feed grain and other protein feeds. Grain thus is a major bulwark in our efforts to improve the diet and it is also an important safeguard of the people's livelihood. Attaining a total grain output of 450 million tons and 400 kg per capita can only meet basic human needs and bring about an initial improvement of the diet.

III Attaining 400 Kg of Grain Per Capita Is No Easy Task

Following the rapid growth in China's grain production from 1978-1984, when the average annual increase in output was almost 17 million tons, the total grain output was reduced by 28 million tons in 1985, falling to 378.98 million tons. Last year's waterlogging in the north and drought in the south were important causes of the decline in grain output. However, in the monsoon climate of eastern China, alternating droughts and waterlogging are normal occurrences; good harvests, like those of 1983 and 1984, are infrequent. Moreover, for China as a whole, 1985 was not a major drought year, and so we cannot entirely blame natural disasters for the smaller harvest. There is also the problem of the sudden reduction in grain acreage in some areas. According to statistics, from 1978 until 1984, the grain acreage was reduced by more than 7.3 million hectares. In 1985 alone, the acreage was reduced by more than 4 million hectares. For example, using the 1984 average of 3.6 tons per hectare, we see that just the reduction in acreage lowered the output by 14.4 million tons. The reductions in grain acreage were a bit too large; this is related to the peasants' lack of enthusiasm for growing grain.

What are the main factors affecting the peasants' enthusiasm for producing commodity grain? First are the unreasonable grain prices. Peasants get no benefits from the "inverse 3:7 proportion" grain price; for peasants supplying commodity grain, it amounts to purchases at a lower price. Take Hengyang City in Hunan as an example. In 1983 the average price was 34.38 yuan per 100 kg of commodity grain sold to the state (including standard purchases, purchases exceeding the contracted amount, and negotiated purchases). In 1985 this was changed to the "inverse 3:7 proportion" system. The average price per 100 kg was 31.18 yuan. In Hengyang that year a total of 520,580 tons of grain were sold to the state; income was reduced by a total of 16,659,000 yuan, an average of a 3.2 yuan loss in income for each peasant. The second factor is the rising prices of agricultural production materials: the cost of grain production has increased, so that peasants think it does not pay to plant grain. According to a survey in the Rongshi District of Hengnan County, Hunan, the higher prices in the district for seven items (chemical fertilizer, farm chemicals, medium and small farm machinery and implements, and agriculturally-used diesel oil, water, and electricity) increased expenses by 2,506,100 yuan from 1983 to 1985. The average person's income was reduced by 48.59 yuan.

Looking at the overall picture, we see that after 1978 the countryside was allowed to rest and revive itself, the amount of grain purchases by the state were reduced, and grain prices were adjusted three times. These measures generally increased the peasants' income from selling grain to the state by almost 40 percent, aroused their enthusiasm for planting grain, and achieved large annual increases in the grain harvest. However, in recent years the income from grain sales to the state in some areas has decreased by almost 30 percent, due to the rising prices of materials used in agriculture, the price adjustments in contract purchases, and other factors. Furthermore, the economic results of planting grain are low, not as good as raising cash crops or engaging in industry or sideline production. According to representative surveys, the per mu net income from planting cotton, flax, and tobacco is 100-500 percent higher than from planting grain, and for fruit and melons it is

500-1000 percent higher. The income from industry and sideline production is also many times higher than from planting grain. This situation undoubtedly weakens the appeal of growing grain; fundamentally speaking, the problem is an effect of the law of value.

At the same time, implementing the system of fixing grain purchases by contract requires a gradual process of perfection. This is a major reform of the circulation system, but due to China's inexperience in fixing grain purchases by contract, some problems still need to be corrected. For example, some places simply make requisitions to meet the contract purchase responsibility, inflexibly dictating the quantity and varieties of grain to be purchased. There is not strict adherence to the provisions of "contract law": some peasants do not have to sell to the state and some grain purchases do not have to be made, as if neither the producer nor the buyer has any economic responsibility. To a large degree this misses the point of fixing purchases by contract, making it difficult for many places to carry out their duty of fixing grain purchases by contract. Some of the current preferential policies for fixed grain purchases cannot be honored. For example, there are increasingly smaller quantities of chemical fertilizer, diesel oil, lumber, and steel products supplied to the countryside at parity price; certain quotas cannot be supplied on time, or supplies needed at certain times are useless past the deadline. These problems have dampened the peasants' enthusiasm. In addition, development of the commodity economy has revealed the inability of the original grain circulation system to meet the needs of growth in grain production. The unreasonable grain prices have deprived grain departments of any enthusiasm for dealing in grain. After diversifying the ways of doing business in grain, some places still take the simplistic step of closing down the grain market, which leads to a few unfavorable consequences. Granaries, processing facilities, and transportation must all be improved in response to changes in grain production.

Furthermore, in recent years construction for farmland and water conservancy has stagnated, for a number of years many existing water conservancy projects have not been kept up, the irrigated acreage has decreased, and the ability to fight disasters is lower. A particular problem is that officials in a considerable number of areas have overestimated the agricultural developments of the past few years, thinking that grain production has made it over the hump. They put most of their energy into more profitable industry, sideline production, and cash crops, neglecting their leadership of agriculture and grain production, and allowing the investment in agriculture to repeatedly decline.

Taking the various factors above into consideration, it will still be necessary to maintain annual increases at a rate of almost 15 million tons for the next 5 years in order to achieve by 1990 the goal of 400 kg of grain per capita (total output of 450 million tons). This will be an extremely difficult task.

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AGRICULTURE

PRICING FOR CONTRACTED GRAIN PROCUREMENT REVIEWED

Chengdu CAIJING KEXUE [FINANCE AND ECONOMICS] in Chinese No 3, 30 May 86 pp 50-51

[Article by Yang Xuebin [2799 1331 2430] and Zhao Yanglu [6392 7122 6922], under the rubric "Rural Economic Work Forum": "Current Remaining Problems and Strategies in Pricing for Contracted Grain Procurement"]

[Text] The Following Major Problems Remain in Pricing for Contracted Grain Procurement:

1. We have not yet broken free from the bonds of former "state monopoly procurement prices." The "inverse 3:7" price ratio now in effect for contracted grain procurement is the contract grain purchase price. It is calculated based on a composite of 30 percent of the former state monopoly purchase price and 70 percent of the former excess purchase price. This kind of pricing for contracted grain procurement does not consider changes in grain production costs or farmer income in years of bumper harvests, crop failures, or natural disasters. Consequently it has not yet completely broken free from the bonds of former state monopoly procurement prices. The so-called "safeguard price" is precisely the former state monopoly procurement price. Because it was set too low and was too rigid (according to a costs survey on Sichuan agricultural products, grain production costs averaged 0.129 yuan per jin in 1984, whereas the grain safeguard price averaged 0.124 yuan per jin) it could not rise to the "safeguard" function it should have played. This kind of pricing is the same we had during the period of state monopoly procurement: it is formulated by higher authorities and executed by subordinates, and the various localities have practically no adjustment powers. What we call contracted grain procurement and pricing set by consultation on the basis of equality is really still centralized price fixing. In many places consultation has become apportionment and contracts have turned into assignment notices.

2. Pricing for contracted grain procurement reflects neither value nor supply and demand relationships. The contract purchase price currently in effect is not formulated through an investigation of grain production costs, but is determined subjectively after a simple calculation based on the former state monopoly procurement price and the former excess purchase price. There is no scientific basis for fixing the price. The grounds for saying this are as

follows: a) The long-standing state formulation of grain prices in China does not satisfactorily reflect objective economic patterns. Consequently, neither can it objectively reflect the value of grain commodities under the conditions of a planned commodity economy. b) Under the effects of limited land, a growing population, "a pattern of progressively decreasing soil fertility," an increase in the overall level of commodity prices, and other factors, production costs for grain commodities will increase in step. If the contracted grain purchase price currently in effect is nevertheless maintained at the original market price level it will obviously not tally with the actual grain value. c) Changes have occurred in supply and demand. According to statistics, in 1985 the averaged market price of Sichuan rice, wheat, and corn was 0.214 yuan in July and 0.225 yuan in August, whereas the averaged contract purchase price was 0.199 yuan, for a difference of 0.015 to 0.026 yuan. If there is a price disparity like this even during the busy season, you can imagine what it will be like in the slack season.

3. Grain varieties have inequitable price ratios. The contracted purchase prices of rice, wheat, and corn are 0.235 yuan, 0.200 yuan, and 0.163 yuan, respectively. By comparison with market prices (in July 1985 rice was 0.266 yuan, wheat was 0.190 yuan, and corn was 0.186 yuan in Sichuan), rice and corn sold for less and wheat was priced slightly higher. In addition, Sichuanese prefer to eat rice, and corn is superior pig feed; it is no wonder that farmers only wish contract orders for wheat, and not for rice and corn.

In Formulating Grain Contract Procurement Prices We Should Adopt the Following Strategies:

1. Prices should be set and contracts signed once a year. Grain procurement involves many objects and covers a broad range, and within the overall pricing system grain prices play a decisive role. Consequently, once the price is determined it should remain relatively stable. Simultaneously, due to changing natural conditions, rising currency values, an increased ratio of state accumulation to consumption, improved labor productivity, and the effects of market commodity prices and other factors, grain prices cannot be static. Therefore, based on fluctuations in the above factors and on grain production forecasts, at the beginning of a year we can suitably revise the previous year's contract procurement price and set the grain purchase price for the current year. Then, on this foundation we can sign contracts with farmers.

2. We should eliminate preferential and safeguard prices and institute floating prices. In floating pricing, the base procurement price would be set centrally by the state, the range of fluctuation would be controlled at the provincial level, and local commodity pricing departments would make adjustments within the range of fluctuation based on actual circumstances.

3. We should adjust varietal price differentials and reform the overall national angle from which we considered price ratios during the period of state monopoly purchasing. When state monopoly purchasing was in effect there was a single price for the entire nation and rice and wheat prices were essentially the same. Now conditions are different, and varietal price ratios must be appropriately revised. We should establish a varietal price

differential system suited to actual circumstances in each province (for example, in Sichuan we should make appropriate increases in rice and corn procurement prices).

4. We should gradually establish and perfect a regional price differential system. Commodity pricing departments at the provincial level should formulate regional price differentials for grain commodities and give local areas certain adjustment powers.

5. We should reform the existing quality price differentials. We should break away from the tripartite ranking of "high, intermediate, and low quality," and utilize major price differences to implement high prices for high quality and low prices for low quality in grain commodities.

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AGRICULTURE

HENAN PREVENTS EXCESSIVE GROWTH OF WINTER WHEAT

HK190333 Zhengzhou Henan Provincial Service in Mandarin 2300 GMT 17 Nov 86

[Text] In view of the prominent problems in the current wheat field management, the province's agricultural departments called for manuring wheat crops, controlling excessive growth of young wheat plants, and doing a good job in winter irrigation to ensure that strong wheat sprouts survive the winter.

The province sowed too many wheat seedlings this year. Early and middle wheat seedlings were sown in large quantity on some 12 million mu of land, with an average of 13 kgs of wheat seedlings sown on every mu. This has resulted in an abnormal phenomenon of excessively dense growth of wheat.

Wheat specialists suggest that artificial seeding thinning be implemented if there are over 250,000 wheat plants on each mu. Only 130,000 to 150,000 wheat plants should be retained on each mu of high-yield land and 150,000 to 180,000 on each mu of middle-yield land. Cultivation should immediately be carried out after seedling thinning so as to loosen the soil to protect the remaining seedlings.

This year's serious drought has brought peasants in all areas difficulties in making farm manure. The quantity of farm manure has decreased remarkably over that in previous years. This, plus the shortage of chemical fertilizer, has resulted in the insufficient base manure in some wheat fields.

The province's agricultural departments demanded that all localities grasp the work of applying farm manure and chemical fertilizer and particularly revitalize late-sown and weak wheat plants. They must also timely carry out winter irrigation and strive to resist spring drought in the winter. This is an important measure for guaranteeing a bumper harvest in wheat. All localities must build and revamp water conservancy facilities and expand winter irrigation area as much as possible. Meanwhile, they must improve forecasting of plant diseases and insect pests and successfully prevent and cure plant diseases and insect pests.

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AGRICULTURE

BARLEY OUTPUT ESTIMATED

Wuhan HUBEI RIBAO in Chinese 4 Oct 86 p 2

[Article: "Estimated Growth of Barley Production in Hubei"]

[Text] Barley is one of the world's four main grain crops. Its acreage is the fourth highest, second only to that of paddy rice, wheat, and corn. Its rate of development, however, is the highest, faster than wheat, paddy rice, and corn.

Hubei is one of the principal producers of barley in China. A variety of reasons had caused its acreage to decline suddenly. According to statistics for the 1984 summer crop, only 1.6 million mu of barley were still harvested and the per mu yield was only 110 kg. Barley had become a weak link among Hubei's grain crops.

Along with the increased output of grain in recent years, the beer and feed industries in Hubei have also grown quite quickly. Barley production has gradually recovered and started to grow. Barley is the principle raw material in producing beer. Last year's beer output in Hubei was 160,000 tons, and this year it will exceed 200,000 tons. It is estimated that by 1990 it will reach 550,000-600,000 tons. Figuring on 20,000 mu of barley needed for each 10,000 tons of beer, we will need to plant 1.2 million mu of barley. Barley is also an important raw material for producing combined feed. Following the spread and increasing demand for formula feed, barley's share [of the grain acreage] will be further increased. In 1990 total grain output in Hubei will reach 25 billion kg. If 30 percent of it is used as feed, this will be almost 7.5 billion kg. Assuming that 13 percent of feed grain is barley, almost 1 billion kg of barley will be needed. Figuring on a yield of 200 kg per mu, we will need to plant 5 million mu. Besides the beer and feed industries, we also must meet the needs of non-staple food processing, seeds, etc. Hubei should therefore give equal emphasis to increasing the acreage and raising per mu yields in order to develop barley production. By 1990 the barley acreage should be returned to 7-8 million mu.

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AGRICULTURE

QUALITY-BASED PRICING URGED FOR COMPOUND FEED

Nanchang JIANGXI RIBAO in Chinese 9 Jun 86 p 2

[Article by Huang Huaiting [7806 2849 0080] and Cai Derong [5591 1795 2837], under the rubric "Work Research": "In Developing Compound Feeds We Must Implement the Principle of Quality-Based Pricing"]

[Text] In the past few years the feed industry has grown quite rapidly in Jiangxi. In the grain sector alone feed production capacity was 695,450 tons, 3.6-fold more than the 1982 level. The production of compound feed and feedmix was 630,00 tons, 16.5-fold over the 1982 level. Moreover, feed varieties have proliferated unceasingly and product quality has gradually improved. This growth in the feed industry has powerfully advanced development in the breeding industry. Compared with the previous year, in 1985 the number of hogs slaughtered for meat in Jiangxi rose 9.8 percent; the number of live hogs on hand grew 8.2 percent; pork, beef, and mutton output increased 17.5 percent; and the output of aquatic products rose 23.1 percent. Historic record highs were set in all these categories.

However, in the process of developing the feed industry, many difficulties and problems confront us. One relatively prominent problem still facing us is that in some places the inability to implement "quality-based pricing--high prices for high quality" in pricing compound feed has gravely affected feed quality improvement and production development in feed enterprises. This should be a matter of serious concern to the relevant departments.

As everyone knows, feed compounding is done based on the nutritional requirements for growth in the animal being raised. Compound feed is made up of energy feeds (such as corn, brown rice, various yams and potatoes, molasses and bran mixtures, etc.), protein feeds (such as all kinds of caked dregs, fish meal, and so forth), and various additives (such as amino acids, vitamins, trace elements, etc.) mixed according to scientific formulae. Compound feed is nutritionally complete and brings a fairly high return. Different varieties of feeds necessarily diverge in price because they are used on different targets and different scales, and their nutritional compositions and contents vary. In addition, although Jiangxi has abundant fodder resources, some varieties are in short supply. In the past few years over 80 percent of the corn, wheat bran, and caked dregs needed by grain departments to produce compound feeds were procured at a negotiated price and

brought in from outside the province. Fish meal supplies depended primarily on imports. Corn transferred in from outside Jiangxi costs as much as 500 yuan per ton, and soybean cakes cost around 700 yuan per ton. Under these circumstances some localities take only farmers' interests into consideration. Disregarding high expenditures for high imports and "high prices for high quality," they use administrative means to fix rigid market prices for compound feeds: they "meet great variability with steadfast uniformity." Moreover, there are no feed enterprise subsidies supplied from public coffers, nor are those enterprises able to sustain deficits. This is bound to dampen enterprise enthusiasm for production management and result in some enterprises being forced to produce low-grade compound feeds or low-grade blended feeds, even to the extent of passing off inferior feed as good feed or raising prices covertly.

If we cannot put "quality-based pricing--high prices for high quality" into effect on feed products, then we are clearly not conforming to the law of value, and this is detrimental to growth in the breeding industry. The level of returns on feed is directly proportional to the level of its benefits in stock raising. A high return on feed can shorten the rearing cycle for stock and poultry, improve slaughter rates and product quality, reduce the quantity of feed used, and bring down feed rearing costs. Consequently, as we now develop compound feeds we should not summarily prescribe just one price for them. We should consider the fact that grain has been opened to freer access, put quality-based pricing into effect, and actively encourage enterprises to produce more high-quality, grain-saving, high meat-to-grain ratio compound feed. This will aid further growth in this developing industry and promote expansion in the breeding industry.

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AGRICULTURE

SHANXI CORN SEED SHORTAGE ANALYZED

Taiyuan SHANXI NONGMIN in Chinese 24 Jun 86 p 3

[Article by Wei Sheng [4850 0524]: "Why Are We Short of Corn Seed in Shanxi in 1986?"]

[Text] Recently, letters have poured in from farmers all over the region reporting that it is especially difficult to buy corn seed. Farmers in some mountain regions have tramped over hill and dale in the dead of night to line up at county seats, and still they have been unable to buy seed.

Why are we so short of corn seed in Shanxi this year? This reporter paid a special visit to the Shanxi Seed Co to discuss this question. The leading official in the company's management section said that at the beginning of the year, the company had almost 25 million kilograms of corn seed. According to estimates at that time, calculated based on 7 million mu of corn to be grown in Shanxi, approximately 17 million kg of seed would be enough to meet demand. If the company did not dispose of the surplus seed it would lose the value of the seed and add to the burden on commission sales units. Therefore, it was considered best to market the seed outside the province.

The company notified every locality prior to selling the seed. The seed departments in some areas immediately responded, saying: "Our storehouses are seriously overstocked with corn seed, and we are worried that we will have no market for it." However, it never occurred to anyone that farmers would be so keen on growing corn this year. According to incomplete statistics from the Shanxi Agriculture and Animal Husbandry Department, an additional 2 million mu of land were cultivated over the original base figure. Analysis indicates that the corn-growing area is still increasing, intensifying pressure on the seed company. In spite of great efforts on the part of the seed company, it is still difficult to satisfy farmer demands.

How can we draw a lesson from the early abundance and later scarcity of corn seed in 1986, so as to arrive at a satisfactory seed supply next year? The official from the management section of the Shanxi Seed Co said we should first undertake an immediate study to analyze the circumstances of the 1986 seed supply and get a handle on farmers' seed requirements. Second, we should make some overall predictions of 1987 corn-growing area based on corn market trends. Third, we should take the initiative to sign contracts with outside

seed departments to prepare for immediate transfers in case seed is insufficient in 1987. The company also suggests that if seed stock plans at seed departments in each prefecture and county are to be directly linked to farmers' planting areas, it is best to sign seed supply contracts. Farmers must change their habit of not considering seed procurement until sowing time, and start to notify or sign contracts with seed departments in advance.

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AGRICULTURE

ACHIEVEMENTS IN ARTIFICIAL FISH BREEDING REVIEWED

Kunming YUNNAN RIBAO in Chinese 25 Jul 86 p 1

[Article by Xing Shuguan [6717 2885 0356]: "Yunnan Very Successful in Popularizing Scientific Fish Breeding: Artificial Fish Breeding Area Now Over 1.1 Million Mu, 1,000 Jin/Mu Record Broken in High-Elevation Intensive Breeding Pools"]

[Text] At the Yunnan Fishery Industry Commendation Meeting held recently, this reporter learned that vigorous efforts to popularize the use of scientific techniques has effectively accelerated the growth of fishery production in Yunnan. During the Sixth 5-Year Plan the total quantity of fish products produced through artificial breeding more than doubled. In the first half of 1986, although that period is the slack fishing season, despite the effects of various degrees of drought and frost in different places fish output in Yunnan reached more than 6,000 tons.

In the past few years, a greater and greater proportion of the labor force has been switching to fishery production following readjustments in the composition of agricultural production and the implementation of fishery industry policies. The total Yunnan water area devoted to aquatic breeding has reached over 1.18 million mu and the number of individual fish-breeding peasant households has grown to more than 88,000. To meet the needs of fishery production development and improve economic results in fishery production, fishery departments at all levels have universally intensified efforts to popularize the use of scientific fishery techniques. As of the beginning of 1986 fishery departments at all levels in the province, prefectures (or autonomous prefectures), and counties had trained a total of more than 3,000 fishery technicians and individual fish-breeding peasant households. Throughout Yunnan a favorable trend of coordination has appeared among state, collective, and individual operations to work hard at popularizing the use of scientific fishery techniques. Several gratifying changes have occurred in fishery production:

--Striving for high yields in intensive pond cultures, we have upset the old idea that fish breeding cannot produce high yields under high altitude or cold weather conditions. On the outskirts of Kunming and Yuxi there are several state and collective fish farms that have broadly extended intensive, high-yield breeding techniques in ponds, dams, and reservoirs. Fish production has

reached the high yield level attained in ponds, dams, and reservoirs in the Jiangsu and Zhejiang area. For example, at Jiali Ze Farm in Songming County there are more than 300 mu of fishponds. After intensive, high-yield techniques were disseminated, the farm reached its current per-mu yield of 900-plus jin. At the Chengdu Military Region Logistics Department Kunming Office Farm, new techniques of intensive high-yield fish breeding are used in 42 mu of fishponds, and the per-mu yield is more than 1,300 jin.

--Disseminating new artificial breeding techniques over a large area and developing good fish varieties suited to a warm damp climate has opened up new avenues of development for fishery production in warm damp regions. The Bureau of Agriculture, Animal Husbandry, and Fishery in Xishuangbanna Autonomous Prefecture has trained a total of over 1,000 fishery technicians for the countryside in recent years, who are helping the masses change their old customs of open-water and extensive fish breeding. Based on the advantage of high water temperature in warm dams, they have introduced and disseminated Luofei [5012 7236] fish and other fine varieties of tropical fish over a wide area. Last year the prefecture bred fish on over 48,000 mu of water area. Unit yield rose suddenly from the 11 jin of the 1970's to over 100 jin, and gross output surpassed 5.2 million jin. Yield from artificial fish breeding in this prefecture has skyrocketed to first place in the province.

--We have widely popularized new achievements made in breeding fish in warm running water, making full use of Yunnan's excess heat from thermal power plants and her abundant underground sources of warm running water to develop fishery enterprises. Now Yunnan's warm running-water fish breeding area has risen from several tens of mu to 300-plus mu, and some advanced models of warm running-water fish farms have appeared and are striving for high yields. Xuanwei County's Mafang Warm Running-Water Fish Farm has used natural ponds to conduct warm running-water fish breeding. Investment has been small and results have been rapid: the per-mu fish yield is now over 4,700 jin. At Longchuandian Fish Farm in Puping Village, located in the Xishan District of Kunming, hot water discharged by electrical generating plants is used to breed high concentrations of fish in 14 mu of warm running water. The average per-mu yield is over 20,000 jin, and the yield from one of the 1-mu model high-yield production ponds reaches over 68,000 jin.

--We have popularized advanced techniques of fish breeding in net pens and behind barriers and made full use of Yunnan's lakes and large reservoirs to develop artificial fish breeding. There are now 158 mu of water area in Yunnan being used to breed fish in net pens and behind barriers. The unbaited net pen fish breeding area that the Yunnan Aquatic Products Research Institute and the Kunming Xishan District Water Conservancy Bureau Aquatic Products Group set up and extended in Dian Chi and Cao Hai totals 97 mu and produces over 16,800 jin of fish per mu. In Yilong Hu, Shiping County, baited net pens are used for fish breeding and the highest converted per-mu yield totals 60,000-plus jin. This provides us with the experience to extend baited net pens to all sorts of lakes throughout the province.

In order to promote intensive development of scientific and technical extension work in Yunnan fisheries, the Yunnan Department of Agriculture, Animal Husbandry, and Fishery held a Fishery Industry Commendation Meeting in

Kunming during the second 10 days of July. At this meeting they seriously analyzed the advanced model experiences of each area in disseminating fishery science and technology and they commended 63 units and individuals that have had notable success in protecting fishery resources, developing fishery production, and disseminating fishery science and technology.

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CSO: 4007/0008

AGRICULTURE

INCREASED FARM MECHANIZATION DISCUSSED

Harbin HEILONGJIANG RIBAO in Chinese 9 Oct 86 p 1

[Article: "Reform Promotes Vigorous Development of Farm Mechanization in Heilongjiang; Amount of Equipment Increases, Range of Operations Expands, Technical Ranks Strengthened; Farm Machinery Horsepower in Rural Heilongjiang Grows 34.2 Percent Over 3 Years, Peasant Investment in Farm Machinery Purchases Equals 44 Percent of Collectives' Investment in Past 30-plus Years"]

[Text] Following the spread in the countryside of the output-related family contract responsibility system, reform of the farm mechanization system in Heilongjiang has met with initial success. The great changes in the forms of farm machinery ownership have promoted the growth of rural production forces and have achieved striking economic results.

At present there are more than 25,900 caterpillar tractors in the countryside of Heilongjiang. There are four systems of ownership: individual households, groups of households, collectives, and state-run farm machinery stations. Individual households own about half of the tractors. Reforms have stimulated the peasants' enthusiasm for buying farm machinery. According to statistics from relevant departments, peasants in Heilongjiang have bought from collectives 19,800 caterpillar tractors, accounting for more than 70 percent of the caterpillar tractors originally owned by collectives. Thirty-one thousand wheeled tractors and more than 100,000 small tractors have been bought from collectives or on the market. The horsepower of the large, medium, and small tractors in rural Heilongjiang has grown from 3,668,000 horsepower in 1982 to 4,921,000 horsepower in 1985, a growth of 34.2 percent over 3 years. In the past 3 years, peasants in Heilongjiang have invested more than 1 billion yuan in purchasing farm machinery, equal to 44 percent of the collectives' investment in the past 30-plus years.

The range of operations for farm machinery has continually grown. There have been new developments in field operations, such as mechanized transplanting of paddy rice seedlings, covering the land with soil mulches, and standardization of wheat and soybeans. Farm machinery has also found use in animal husbandry, processing of agricultural products and byproducts, transport, and construction materials. Statistics from the end of 1985 show that the

expanded operation of farm machinery in Heilongjiang was equivalent to the cultivation of 190 million mu, accounting for 37.1 percent of farm machinery operations.

The system of community-oriented farm machinery management and service has developed rapidly. According to statistics, 73 percent of the rural towns in Heilongjiang have set up farm machinery management and service stations, and 40 percent of the villages have established various forms of farm machinery service organizations. In the past 3 years, farm machinery technical training has also grown very quickly. In 1985 alone, 200,000 farm machinery personnel were trained in Heilongjiang's villages. Heilongjiang has more than 480,000 peasant tractor drivers and machinery operators.

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AGRICULTURE

ATTENTION CALLED TO DECLINING PIG PRODUCTION

Kunming YUNNAN RIBAO in Chinese 3 Oct 86 p 2

[Article by Sun Guoqi [1327 0948 2759]: "Declining Number of Pigs Deserves Attention"]

[Text] According to statistics from concerned departments, in the first half of this year the number of live pigs, the slaughter rate, and commercial purchases declined 1.4 percent, 4.4 percent, and 23.4 percent, respectively, in comparison to the same period last year. Purchases in producing areas were reduced and sales in consuming areas increased, a striking contradiction between purchases and sales. This reporter recently investigated the problem in Dayao, Yaoan, and other places. I discovered that the channels for purchasing and selling pigs are clogged and that pig production is shrinking back.

The main reasons are: 1) rising market prices for grain, causing increased costs and smaller income from raising pigs. 2) The contract down payment and the swine epidemic prevention fees are not being paid. 3) Shipments of fattened pigs have lost money, affecting the development of pig production in the producing areas and the enthusiasm of food companies for buying and shipping fattened pigs. 4) Peasants raising pigs in inaccessible mountain areas complain about their inability to market their fattened pigs as commodities. 5) State-run food companies respond poorly to change; purchases and sales have fallen, income is reduced, and deficits are growing. If these problems are not solved, they will definitely affect the growth of pig production in Yunnan and the market supply of pork. Based on my investigation, I have a few superficial observations and suggestions.

Production stages: first, we should fully use contract down payments, parity price feed grain, production support loans, and other methods to lend vigorous assistance to the development of key households and specialty households which raise pigs. In inaccessible poor mountain areas, we should still fully use state subsidies for grain, cotton, and cloth, and vigorously build highways and postroads, enabling mountain peasants to sell their pigs as commodities. Second, while restructuring rural production, we should be sure that local production is suited to local conditions, that the proportion of grain to cash crops is appropriate, that crops are properly distributed, and that the grain output steadily grows. Third, we should comprehensively use modern pig-raising

technology and actively promote the scientific raising of pigs. State-run food departments and animal husbandry departments should cooperate closely, set up production bases with improved varieties of pigs, and support the development of pig raising by giving priority to five areas: improved varieties of pigs, combined feeds, technical training, disease and epidemic prevention, and loan grants. The practice of collecting community epidemic prevention fees should be restored in order to provide funds for epidemic prevention. Fourth, where conditions permit, all the income from taxes on the slaughter of animals should be returned to animal husbandry departments. The money would be used primarily to set up systems for veterinary medicine and epidemic prevention, animal improvement, feed development, and S & T extension, and to provide subsidies for district and township veterinary staff in some poor areas. It would also pay for market quarantines, the treatment costs and death compensation for pigs injected experimentally to test reactions, and other charges.

Circulation stages: first, state-run food departments should further change their business mentality and adjust to the changes brought by reform. While distributing food through a variety of channels, they should actively support the regulative role of the market and balance supply and demand. They should fully take advantage of funds, equipment, distribution points, and technical resources in order to play a guiding role in the market. Their business methods should be flexible and diverse; they should travel from place to place to do business, assign sites for sales, and deal in new commodities as well as familiar ones. As much as possible, the number of stages required to do business should be reduced, business administration should be improved, and responsiveness to change should be increased. Second, we should provide a suggested price for pig purchases and sales, correctly use the lever effect of price and the law of value, use our ingenuity to enliven the pig business, and preserve the basic stability of prices for goods on the market. At the peak of the purchasing season, when the market price is lower than value, a purchase price should be set, based on average production costs plus a certain amount of profit, and large numbers of pigs should be bought. This will protect the interests of producers and stabilize the development of pig production. Furthermore, within the range of suggested prices stipulated by the local government, specific sale prices should be set for different seasons and different grades quality. This will keep the market price in check. Financial departments should promptly pay compensation for losses incurred in making deliveries to distant places, stockpiling reasonable amounts, and keeping the market price in check. Third, to ensure the health of consumers, management of the market should be further strengthened, with better quarantines for live pigs and pork. Industrial and commercial, food, health, price, and other relevant departments should cooperate closely in bringing into line the existing collective and individual butcher shops. They should resolutely ban operating without a license.

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AGRICULTURE

LIVESTOCK MANAGEMENT REFORM URGED

Harbin HEILONGJIANG RIBAO in Chinese 24 Sep 86 p 2

[Article by Wu Binsheng [0702 3453 3932]: "Reform Livestock Management System, Integrate Animal Husbandry, Industry, and Commerce"]

[Text] The present economic management system in Chinese animal husbandry cannot cope at all with the development of commodity animal husbandry. Management is dispersed, policies come from every direction, and there is no standardized plan for the development of animal husbandry. For example, animal production is controlled by animal husbandry departments; the purchase of live pigs and the sale of pork and pork products is under commercial departments; the processing and supply of feed is primarily under grain departments; the purchase of wool and pigskin is under supply and marketing departments; the purchase of rabbit hair, rabbit meat, and beef cattle is under foreign trade departments; and processing of sideline production is under industrial departments. Animal husbandry, industry, and commerce are all divorced from each other. Many years of experience have proven that the old system of separating animal husbandry, industry, and commerce increasingly limits the growth of animal husbandry. It should be reformed as soon as possible and gradually be replaced with a new system integrating animal husbandry, industry, and commerce; we should gradually incorporate animal husbandry, industry, and commerce into a single entity, and integrate the differing managements of animal husbandry.

Integrating animal husbandry, industry, and commerce helps the development of China's commodity livestock economy. The reasons for this may be summarized as follows.

1. Use of profit returns from industry and commerce can promote the steady growth of animal husbandry. For a long period, the price in China for animal products was on the low side. This method of exchanging unequal values violated the internal laws of commodity economy development and stifled the enthusiasm of animal husbandry producers. To change this situation, we can make intermediate-economic adjustments within the economic organization of integrated animal husbandry, industry, and commerce, in addition to macro-economic perfection of the price system. We can help solve the problem by returning a portion of the profit gained from selling and marketing animal products to animal production units or individual farmers.

In the past 3 years, sheep and goat production in Heilongjiang has been depressed, with the number of animals decreasing each year. Last year, however, in the city of Qiqihar, which has one-third of the sheep and goats raised in Heilongjiang, sheep production did not decline; in fact, it was much higher than the previous year. The key factor here is that Qiqihar has integrated animal husbandry, industry, and commerce. This city's "Huaqi" Joint Animal Husbandry, Industry, and Commerce Company and three wool textile mills in Qiqihar, Longjiang, and Duerbote have signed purchase and sale contracts. All wool received is sold to these three wool textile mills according to the contract. The company adheres to the principles of giving profit to the people, reasonable grading of wool, and high prices for high quality, in order to support sheep production. Last year, Huaqi Joint Animal Husbandry, Industry, and Commerce Company returned half of its profit of 300,000 yuan to sheep raisers, to be used for quarantine, disease treatment, dipping, and breeding. This has resulted in satisfactory production, business, and processing. More important has been the arousal of the peasants' enthusiasm for raising sheep.

The return of industrial and commercial profits has so far mainly been in the area of distribution. Following continuing growth in the commodity economy, profits must be returned in the area of production. Profit returns can increase productive investments in animal husbandry, improve its business, and raise its economic results.

2. Provide non-production service before, during, and after production. As animal husbandry develops, people engaged in animal production have ever more pressing demands for information, improved varieties, technology, epidemic prevention, funds, purchases and sales, processing, storage, transport, and other non-production services. The integration of animal husbandry, industry, and commerce can quite successfully perfect the system of non-production services and meet the needs and difficulties of producers.

Peasants in the Seven Star State Farm in Heilongjiang had been hesitant to raise chickens before the process of restructuring production began. The animal husbandry company on the farm managed to eliminate their worries by integrating animal husbandry, industry, and commerce and delivering four services to the door (chick and feed deliveries, purchases, technical services, and quarantine all take place at the worksite). Last year this farm raised a total of 400,000 broilers. Due to the coordinated services provided at each step--hatching, feeding, purchases, processing, and sales--by the animal husbandry company, the farm has never had any chicken epidemics and both production and sales have flourished. There has been new growth in chicken farming in the spring of this year on the farm.

3. The integration of animal husbandry, industry, and commerce helps to further the systematic development of the animal husbandry economy.

4. It helps to bring production, processing, and sales into equilibrium. The new system of integrated animal husbandry, industry, and commerce can join together production, processing, and sales according to the needs of commodity production, creating a tightly knit economic mechanism.

Because the original system for managing the animal husbandry economy has been in existence for many years, changing it will be a complicated and arduous process. Therefore, we must make sure we solve the following problems as we carry out the reform. 1) We must not waver from the course of reform. The establishment of a new system integrating animal husbandry, industry, and commerce has just begun in China and so far we are still inexperienced. It is entirely normal that in the course of reform we will inevitably run into a few problems. We cannot murder reform in the crib just because of a couple problems in the course of reform. 2) We must adhere to the principle of suiting local production to local conditions. The integration of animal husbandry, industry, and commerce will have to take a variety of forms because of the differing conditions and production forces available in various areas for the development of commodity animal production. The form of integration which is adopted should be based on the actual local conditions; we should avoid following a high-level model just for the sake of being high-level. 3) We must adhere to the principle of voluntary participation and equality. If integrated animal husbandry, industry, and commerce is not established on the basis of voluntary participation and equality, but is instituted through executive decrees and artificial methods, it will lack any vitality. 4) Correctly handle the interrelationships within animal husbandry, industry, and commerce. Animal husbandry, industry, and commerce are interdependent and limit each other. Processing and commerce can depend on animal husbandry only if it is in good shape; if not, industry and commerce are like a tree without roots. For this reasons, it is vital to adhere to the principle of exchange at equal value within animal husbandry, industry, and commerce. Industry and commerce must share the benefits with animal production units and individual farmers according to the actual circumstances, so that animal husbandry can develop into a stable, sound base for industry and commerce. We must avoid overemphasizing industry and commerce and neglecting animal husbandry, or abandoning animal husbandry in favor of commerce or industry. 5) Once animal husbandry, industry, and commerce are integrated, the economic organizations will be independently run units; administrative departments should not excessively interfere with their internal activities.

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AGRICULTURE

CHEMICAL FERTILIZER PRODUCTION PROBLEMS DISCUSSED

OW290048 Beijing XINHUA Domestic Service in Chinese 1518 GMT 26 Nov 86

[By reporter Wu Jincal]

[Text] Beijing, 26 Nov (XINHUA)--The State Economic Commission and the Ministry of Chemical Industry, instructed by the State Council, held an emergency telephone conference today, calling on all professions and trades and all local governments to create favorable conditions for chemical fertilizer production, and urging the workers and staff members of the chemical fertilizer industry to strive to increase production this winter and next spring to ensure supply for next year's spring farming.

Lin Diancai, vice minister of chemical industry said during the conference: The party Central Committee and the State Council this year have timely adopted some policies in support of chemical fertilizer production. As a result, our chemical fertilizer industry has put an end to poor sales and helped some of its enterprises resume or increase production. By the end of October, it had produced 55.66 million metric tons of chemical fertilizer and fulfilled more than 87 percent of its annual plan. It is anticipated that we shall be able to attain the goal of increasing this year's chemical fertilizer production by 3 million metric tons. However, chemical fertilizer production has declined since October due to problems in electricity and gas supply, transportation, and reserve funds.

Lin Diancai said: The party Central Committee and the State Council recently emphasized the need to develop grain production, and called for efforts to increase chemical fertilizer production in support of agriculture. Therefore, an urgent task for the chemical fertilizer industry is to thoroughly organize production for this winter and next spring, with a monthly production target of 6 million metric tons.

It is reported that the State Economic Commission recently decided to step up coordination with various trades and professions and make arrangements for them to help promote chemical fertilizer production. During the telephone conference, Lin Zongtang, vice minister in charge of the State Economic Commission, put forward concrete demands for departments concerned throughout the country.

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AGRICULTURE

GUIZHOU FORESTRY WORK CONFERENCE ON FUTURE PLANS

HK281338 Guiyang Guizhou Provincial Service in Mandarin 2300 GMT 26 Nov 86

[Text] The provincial conference on forestry work held by the provincial government put forward: The guiding ideology of the development of forestry of our province during the Seventh 5-Year Plan period is to carry out rehabilitation, to restore development, and to resolutely change the situation in the dropping of the forestry resources and in the deterioration of the ecological environment.

The conference pointed out: In the forestry of our province, we must place reform above everything else, reform and perfect the forestry economic structure, readjust the forestry production structure, reform the forestry enterprise structure, and promote the change of the forestry economy from going it alone to comprehensive operation, from the self-sufficient economy with the door closed to commodity production with the door open, and from traditional forestry to modernized forestry.

The conference pointed out: The strategic target of developing forestry of our province during the Seventh 5-Year Plan is to guarantee that the rate of forest coverage is stabilized at 12.6 percent and to build quick-growing, high-yielding commercial forest bases emphasizing China fir, and economic forest bases focusing on Chinese galls, forests, and fruits. All places throughout our province must seriously regard planting trees as the foundation, universally protect forests, and link lumbering with planting of trees, and emphasize proper use. The state, collectives, and individuals must all carry out afforestation. It is necessary to build forests artificially, to plant trees on barren mountains, and to use planes to sow tree seeds. It is essential to build commercial forests, economic forests, water and soil conservation forests, and forests which will be sources of firewood and charcoal. We must take the road of thrifty operation and vigorously build quick-growing and high-yielding forests.

The provincial party committee and provincial government have demanded: During the Seventh 5-Year Plan, the whole province must build quick-growing and high-yielding forests with a high standard on 800,000 mu to 1 million mu each year. At the same time, it must work out an overall plan and design for diversification and carry out construction to ensure that it can use industry and animal husbandry to support forests.

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CSO: 4006/143

AGRICULTURE

TIMBER MARKET DISCUSSED

Wuhan HUBEI RIBAO in Chinese 4 Oct 86 p 2

[Article by Guo Xin'an [6753 9515 1344] of the provincial Bureau of Industry and Commerce: "Business Lively in Hubei's Timber Markets"]

[Text] From January until August, 222,600 cubic meters of timber were traded at specialized timber markets managed by executive departments of the Hubei Bureau of Industry and Commerce. This was 27.86 percent more than in the same period last year.

Timber Markets Even More Lively in Non-Forest Areas. Jingzhou Prefecture in Hubei, famed for its abundance of rice and fish, produces very little timber, so that for years the masses have had difficulty in buying timber. After the timber market was opened up, large timber markets appeared around the prefecture in Mabuguai, Jiangling County, Zhuhe, Jianli County, and Dayuan, Shishou City. In Huanggang and Xiaogan prefectures, which had long been short of timber, the volumes of timber traded were, respectively, 16.6 percent and 32.3 percent more than in the same period last year.

Activity in Timber Markets Brings Prosperity to Bamboo and Wood Processing Industry. Every kind of furniture is now sold in Lichuang City and the county seat of Laifeng County. Bainiqiao in Chongyang County is famous for its palm-fiber beds, with every family there lacing and selling the beds. Sofas, dressers, and other wooden goods used in everyday life are sold on the street at all the country markets in many county seats.

Timber Price Basically Stable. The prices at timber markets in Hubei in 1985 were only 1.1 percent higher than the previous year. From January till August of this year, the price for a cubic meter of timber fluctuated around 268 yuan, an increase no more than 9 percent.

The problems we should give our attention to now are: 1) Timber markets in mountain areas have not been opened up enough. 2) Management of business in timber markets has fallen behind. 3) Urban timber markets are not very active. In addition, bamboo and wood products made in mountain areas must immediately break away from the old models, which are "crude, unwieldy, unattractive, and wasteful of materials."

AGRICULTURE

BRIEFS

GUANGDONG REAPS LATE RICE--According to recent statistics, by 7 November, Guangdong Province had reaped late rice on about 8 million mu, which accounted for 28 percent of the area of late rice which should be reaped. [Summary] [Guangzhou Guangdong Provincial Service in Mandarin 0400 GMT 14 Nov 86 HK] /9738

HEILONGJIANG BEET HARVEST--This year, Heilongjiang Province reaped a bumper harvest of beets. According to initial estimates, the total beet output will reach 4 million tons, a 23-percent increase over last year. [Summary] [Harbin HEILONGJIANG RIBAO in Chinese 12 Oct 86 p 1 SK] /9738

GUANGXI DEVELOPS ANIMAL HUSBANDRY--Guangxi this year has maintained a good, steady development trend in animal husbandry. By the end of September, the region's draft animals on hand totaled 5.57 million, an increase of over 100,000 compared to the first half of this year. The number of poultry on hand totaled over 103.37 million, an increase of more than 1.69 million, or 1.7 percent, over the first half of this year. This was achieved mainly by the leadership's taking animal husbandry development as a key task in readjusting the rural industrial structure. [Summary] [Nanning Guangxi Regional Service in Mandarin 1100 GMT 2 Nov 86 HK] /9738

HUBEI GRAIN DEVELOPS STEADILY--The province's grain production has developed steadily. According to estimates, the province's grain output for this year is expected to reach some 22.75 billion kgs, an all-time high. [Summary] [Changsha Hunan Provincial Service in Mandarin 1100 GMT 3 Nov 86 HK] /9738

YUNNAN GRAIN PRICE--This year, despite frequent natural disasters, including low temperatures, drought, floods, and hailstones, which adversely affected grain production, governments at all levels of Yunnan Province took effective measures to stabilize the urban grain price. They vigorously combated natural disasters to reduce to a minimum the losses they caused and provided the disaster areas with grain to make good arrangements for the livelihood of the people. According to incomplete statistics, this year, departments concerned of our province sold some 320 million kg of grain at low prices back to those areas seriously affected by disaster. At the same time, grain departments at all levels made arrangements for a large quantity of grain at

negotiated prices from outside our province to be put on the market. Since the spring-harvested crops were hit by natural disasters, the amount of grain at negotiated price to be put on the market each month has reached some 30 million kg. According to statistics, since the beginning of this year, the market grain price of our province has been stabilized at about 7 jiao 8 fen a kg. [Summary] [Kunming Yunnan Provincial Service in Mandarin 2300 GMT 16 Oct 86 HK] /9738

XIZANG MIXED FEED RESOURCES--The investigation of mixed feed resources in Xizang Region which lasted one year has been successfully completed. The results of the investigation were checked and accepted on 8 November. The exploitation, utilization, and investigation of mixed feed resources was one of the items included in the Sixth and Seventh 5-year Plans by the State Economic Commission. The Xizang mixed feed resources investigation group was organized by the Regional Food Company and the Animal Husbandry and Veterinary Scientific Research Institute. The total amount of our region's mixed feed resources is about 16 million tons. It is estimated that some 26,000 tons can now be exploited and utilized. [Summary] [Lhasa Xizang Regional Service in Mandarin 1130 GMT 10 Nov 86 HK] /9738

XINJIANG ANIMAL HUSBANDRY--The number of female livestock, large and small, in the Xinjiang Region accounts for 49 percent of the total number of livestock, and ranks first in the whole country. The proportion of female livestock in the pastoral areas of Altay to the total number of livestock ranks at the advanced world level. It has been learned that the herdsmen of the region spent some 1.5 million yuan in buying all kinds of fine breeds. With the increase in females, the number of young livestock of the whole region this year is some 800,000 head more than last year. [Summary] [Urumqi Xinjiang Regional Service in Mandarin 1300 GMT 29 Nov 86 HK] /12232

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